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Adding medicinal powers to food
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Japanese politics
Less predictable, more competitive
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No sign here of the global democracy trend
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IRI
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World Business Newspaper http://www.FT.com TUESDAY JUNE 17 1997

Portuguese EdP power sell-off oversubscribed

Yesterday's issue of shares in Electricidade de Portugal, the national power utility, was heavily oversubscribed leaving retail and institutional investors with e fraction of the shares they ordered. The country's biggest ever privatisation was subscribed 37 times by retail investors and 25 times by institutions. "Allocating the shares is proving painful," said a banker close to the co-ordinators. "Everyone except for a group of first-class institutions will get very little." The sale of 180m shares, representing 30 per cent of EdP'e total capital, raised Es368bn ($76.84bn) allowing for discounts for small savers. Page 19

Japan military move: The Japanese government is calling for legislation to enable the military to react to security crises outside Japan. If passed by parliament, the measure could clear the way for Japan's first post-war involvement in east Asian peace-keeping operations. Page 18

Computer groups to challenge Oracle

Leading personal computer manufacturers including Compaq, Dell, IBM and Hewlett-Packard have launched a new class of "Network PCs" aimed at business. The NetPC is their answer to the "Network Computer" initiative led by Oracle'e Larry Ellison, left. Page 19

Peace moves go on despite clashes: Clashes between Palestinians and Israeli soldiers continued in the West Bank town of Hebron and the Gaza Strip, as Egypt pushed on with efforts to restart peace talks suspended since Israel started work on a new Jewish settlement at Har Homa in east Jerusalem. Page 9

US group rules out Airbus deal: Pratt & Whitney said it would not supply engines for the new Airbus Industrie 380-seat aircraft, leaving Rolls-Royce as sole supplier. The US company has doubts about the profitability of providing engines for the aircraft. Page 6

Ariane fails again: The second launch of Europe's troubled new Ariane 5 rocket has been postponed again while an engine is replaced. Jean-Marie Luton, director general of the European Space Agency, said the launch would now take place on September 30.

Out of Africa: France began withdrawing its troops from Congo after evacuating more than 5,000 foreign nationals caught up in a bloody political and ethnic dispute in the former French colony. Page 9

Yeltsin ready for battle: Russia's president Boris Yeltsin prepared to do battle with one of the country's most powerful regional governors by threatening to call early elections in the troubled Primorsky region in the east. Page 4

Croatian election criticised: International monitors condemned Croatia's presidential elections as biased in favour of the nationalist Franjo Tudjman, who swept to victory with more than 60 per cent of the vote. Page 4

Italian referendums doubt: The future of referendums as an instrument of political and social reform in Italy is in doubt after only a third of the nation's 49m electorate bothered to vote in ballots last Sunday. Page 2

Bosnia loans suspended: World Bank loans and new reconstruction projects for Bosnia have been suspended following the country's failure to make an $8m payment on its external debt. Page 2

Banks plan link-up: UK-based Barclays bank is negotiating a strategic alliance with Japanese bank Hokkaido Takushoku to develop joint asset management and investment banking services in Japan. Page 19

Lebanese liberalisation call: The Lebanese government is coming under increasing pressure to rescind protectionist measures and change import policies. Page

Transatlantic superhighway: The first information superhighway across the Atlantic enables cheaper high-speed transmission of data through a fibre-optic cable. Page 5

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STOCK MARKET INDICES

New York lunchtime		
Dow Jones Ind Av	7,777.06	(-4.96)
NASDAQ Composite	883.70	(+0.43)
Europe and Far East		
CAC40	2,795.87	(+12.65)
DAX	3,785.11	(+20.67)
FTSE 100	4745.1	(-38.0)
Nikkei	20,631.07	(+152.72)

US LUNCHTIME RATES

Federal Funds	5¾%
3-mth Treas Bills: Yld	4.95%
Long Bond	99⅛
Yield	6.70%

OTHER RATES

UK: 3-mo Interbank	6⅝%	(same)
UK: 10 yr Gilt	101½	(101⅞)
France: 10 yr OAT	99.56	(99.30)
Germany: 10 yr Bund	102.43	(102.25)
Japan: 10 yr JGB	104.2788	(104.21)

NORTH SEA OIL (Argus)

Brent Dated	$17.235	(17.035)

GOLD

New York: Comex		
(June)	$342.9	(340.9)
London:		
close	$341.95	(341.55)

DOLLAR

New York: lunchtime		
£	1.6365	
DM	1.7312	
FFr	5.83331	
SFr	1.4415	
Y	113.675	
London:		
£	1.6363	(1.6355)
DM	1.7295	(1.7378)
FFr	5.8325	(5.8643)
SFr	1.4397	(1.4467)
Y	113.46	(114.70)
Tokyo close:	Y 114.75	

STERLING

DM	2.8335	(2.8421)

8 770174 738128 25

Bonn and Paris patch up quarrel that threatened launch of Emu

France saves face on jobs

By Lionel Barber and Robert Peston in Amsterdam

France and Germany patched up their differences over the terms of monetary union with a peckage of face-saving measures for the new left-wing government in Paris to boost employment and growth.

The agreement keeps the European Union on course for launching the single currency on January 1, 1999, while failing to resolve the fundamental differences over the operation of the planned monetary union and its membership.

The single currency row had threatened to disrupt the Amsterdam meeting of EU leaders, whose chief task is to update the 1992 Maastricht treaty by reforming the union's institutions and its decision-making ahead of enlargement of the EU to central and eastern Europe.

The Amsterdam compromise means thet the German-inspired stability pact on budgetary discipline, as well as the parallel agreements on a reformed Exchange Rate Mechanism and the legal status of the euro will go forward.

In parallel, EU leaders have agreed two new political resolutions which offer rhetorical support for French demands for a political counterweight to the future European central bank, through a list of new commitments to employment and growth.

The agreement holds out the possibility of member states exerting political influence over the management of exchange policy of the single currency, the euro – a long-standing French demand.

Mr Wim Kok, the Dutch prime minister, who led a frantic round of pre-summit diplomacy to end the Franco-German rift, hailed the compromise.

"Europe is not just creating a monetary union with monetary and budgetary discipline. It is a Europe of employment with social content," he said.

Last night, the Dutch presidency expressed cautious optimism that agreement on a treaty was within reach today, despite last-minute hitches over Denmark's objections to new EU-wide powers in immigration and asylum.

The political resolutions include encouragement to the European Investment Bank to broaden its lending to promote job creation, greater focus on removing barriers to employment and more political direction in macro-ecoonmic policy-making. This would include political influence over euro exchange rate.

In addition, Luxembourg, which takes over the rotating EU presidency from the Dutch on July 1, will hold a special summit to review steps taken by member states to improve employment policies.

Mr Theo Waigel, Germany's finance minister and the architect of the stability pact, insisted that the Bonn government had not budged in its insistence that there would be no new money for EU-wide job creation.

Mr Gordon Brown, UK Chancellor, who has been seeking the promotion of competitiveness and flexible labour markets, said: "The British agenda is leading the way."

There were also indications that the UK would win guarantees for retaining control over its borders and immigration policy. Last night, EU leaders began hard bargaining over institutional reform including the size of the European Commission and a redistribution of voting weights in the Council of Ministers in favour of larger countries.

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Immigration, Page 2
Emu start, Page 3

New computer timebomb could halt systems

Warning over 1999 short cut

By Alan Cane

Compnter experts have discovered a new "time bomb" in older software which could bring many corporate systems to a halt in two years' time.

The problem comes as information eervices departments are struggling to cope with the "millennium bomb" and the threat of computing changes to handle the planned start of European monetary union on January 1 1999.

It stems from the custom among programmers in tha 1970s of entering the date September 9 1999 (09/09/99 or simply 999999) to indicate the end of a project or the end of a set of records for processing.

This was necessary to ensure that records were processed in the right order, with the first file for processing numbered 000000 and the 99999 representing the software equivalent of a full stop.

As September 9 1999 approaches many of these end-dates will be activated, bringing programs that should run indefinitely to a premature halt.

Ms Elaine Eustace, head of the Year 2000 team at CMG, a publicly listed European computing services group, said: "This new problem could hit any sector. Once found, it is not hugely difficult to correct, bnt the big worry is time. There is only a year and a half to go until the beginning of 1999 and, with other well-documented issues to be managed in conjunction with this, it does not give anyone much breathing space."

Both the millennium bomb, which threatens to cause computer eystems to behave unpredictably after December 31, 1999, and the new data problem are the result of short-cuts and tricks used by programmers to overcoms the often inadequate software and hardware. at the time.

They were not aware of the problems they were bequeathing because few believed their software would still be in use in the 1990s.

In the US, the Oregon state government recently launched a recruitment drive because it faces a shortage of programmers who know the software languages used to program mainframe computers in the 1960s and 1970s. Veteran programmers are expected to make up a third of the 200-strong task force being set up to solve the problem.

Ms Eustace says the new problem will be only be experienced by companies with mainframe computers running older software. "If orders, policies or premiums are scheduled over the weeks following

Continued on Page 18

Turkey's Islamist prime minister Necmettin Erbakan yesterday defied strong pressure from the armed forces on his government. He said he was confident his coalition would survive until elections in a few months and refused to confirm reports he would stand down this week. Report, Page 18 Picture: Reuter

S Korean bank launches new 'disaster-proof' bond

By Edward Luce

The state-owned Korean Development Bank yesterday broke new ground in the international bond markets by offering buyers of a new $300m bond a chance to redeem their investment early if the bank's credit rating is downgraded.

The deal – which is considered highly innovative by bond analysts – was organised by Goldman Sachs, the US investment bank, and is designed to reassure investors unsettled by Korea's recent economic difficulties.

Although South Korea has has an investment-grade credit rating, foreign confidence in the country has been dented by a slowdown in economic growth, falling export orders and worries about the country's competitiveness.

Investors will have the right to redeem the bond before it matures in June 2002 if Korea is downgraded to below A3 by Moody's Investor Services or to below A- by Standard & Poor's, the sixth highest possible rating. The bank currently enjoys a rating of A1/AA-, the same level as the South Korean government.

"This is basically a form of disaster insurance for investors," said a bond analyst in London. "It also enables the Korean Development Bank (KDB) to borrow from the bond markets at a lower cost. If it is popular we expect to see many more."

Officials at Goldman Sachs said that the $300m bond had been bought by the kind of investor who would normally avoid Korean debt.

"The presence of the puttable option [the right to redeem the bond before its maturity] has given the more conservative fund managers the confidence to invest in this issue," said one Goldman official.

Bankers said the offering had also been particularly popular in Europe, where demand would normally be weaker.

By contrast, Asian investors appeared unfazed by Korea's recent economic travails.

"The investment community in Asia needed less reassurance about Korea's economic stability than investors in Europe," the official added.

The bond carries e floating rate of interest and was priced to yield 18.75 basis points (a basis point is one hundredth of a percentage point) above Libor – the rate at which London banks lend to each other.

Analysts said that the KDB, which, as a state-owned bank, acts as e proxy for the Korean government in the international bond markets, would normally expect to issue debt at five or 10 basis points above this level.

Capital markets, Page 26

CONTENTS

NatWest executive quits as bank warns on profits

By John Gapper and William Lewis

National Westminster Bank, a leading UK universal bank, was plunged into crisis yesterday after Mr Martin Owen, its head of investment banking, resigned and the bank issued a profits warning.

Mr Owen's resignation follows the discovery of mispricing of interest rate options in March, which cost the bank £77m ($125m), and pressure from institutional shareholders over inadequate returns from investment banking.

NatWest shares dropped by 5 per cent after rising earlier on hopes that it would reduce investment in NatWest Markets, its investment banking arm. The bank said it was nndertaking a thorough review of NatWest Markets.

NatWest Markets is expected to cut or close its eurobond sales and trading arm, and some managers said they expected a reduced emphasis on corporate advisory work. Trading of equity derivatives may be put under scrutiny.

Mr Derek Wanless, NatWest's chief executive, said the bank intended to "define more precisely what our ambitions are. We are still committed to investment banking, but not to be all things to all men". It would retain global ambitions for some businesses.

NatWest's decision to trim parts of NatWest Markets is the first overt move by a European bank to modify its ambition to own a leading global investment bank. A similar expansion strategy has been followed by large Swiss and German banks.

Investors were critical of NatWest's strategy of expanding its investment banking operations through acquisitions, and some said they thought Mr Wanless might eventually be forced to resign. One investor described Mr Owen as a "sacrificial lamb".

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Another blow for British banking's image, Page 19

LONDON · LEEDS · PARIS · FRANKFURT · STOCKHOLM · MADRID · NEW YORK · LOS ANGELES · TOKYO · HONG KONG

Brown's jobs initiative fosters deal that averts French threat to block stability pact

Britain helps keep Emu on track

By Robert Peston in Amsterdam

Amsterdam Summit

Mr Tony Blair's government achieved something yesterday which it is loath to admit in public: it played a significant part in preventing the project to create a European single currency from being derailed.

The employment and growth pact which European Union government heads agreed yesterday – and which papered over the differences between France's new Socialist administration and the German government on monetary union – owes much to the jobs initiative launched a fortnight ago by Mr Gordon Brown, the UK chancellor of the exchequer.

It is filled with New Labour soundbites and ideas. All EU members committed themselves to reviewing their tax and benefit systems to root out disincentives to job creation. They vowed to increase the "adaptability" of their labour markets in the face of rapid economic change. They promised to take steps to increase the "employability" of their workforces through investment in education and training.

The deal represented a neet way of satisfying French demands for greater EU emphasis on employment while quieting German fears about the French appetite for expensive job-creation schemes.

Without such a deal, there was a real risk that the French government would block final agreement on the so-called stability pact, the fiscal disciplines to be imposed on Emu members. "You could say we have rescued Emu," said a member of the government, "although I would be grateful if you did not say it too loudly."

The British position on monetary union is that sterling's entry at the launch date of 1999 is "highly unlikely", although it retains "a very real option" to join at a later date.

However, ministers and Treasury officials are convinced that the single currency will be disastrous for Europe if EU labour markets do not become more flexible. "Our basic position is that it is important we create the conditions in which monetary union stands a chance of succeeding, whether or not we join," said an official.

Because of the extreme political sensitivity of the single currency question in the UK, this is not an achievement the prime minister can shout from the rooftops. However, on the EU ambitions he can discuss more frankly, he made more modest progress.

It seemed likely yesterday that a new EU treaty would contain two protocols guaranteeing Britain's permanent right to control its own borders and allowing the UK to "opt in" to any EU justice and home affairs initiatives it felt appropriate.

However, an agreement had not been reached, because Mr Blair remained concerned that the European Court of Justice could have the ability to erode British autonomy.

Similarly, he was hopeful his fellow leaders would drop their aim of transforming the EU into a defence organisation. There were also signs that a deal might be concluded stemming Spanish inroads into the British fishing industry through so-called "quota-hopping".

What was abundantly clear was that Mr Blair, Mr Robin Cook, the foreign secretary, and Mr Brown were in general treated with respect by their colleagues. The renewed influence of the UK was also visible in the confidence displayed by British officials who, in the dying days of the previous government, had become increasingly despondent.

"We and the French and the Germans have put jobs and dynamism at the top of the EU's agenda," said a senior official. "You can't imagine how wonderful it is to feel that you are actually being listened to."

EU lowers its sights over sensitive goals

By Emma Tucker in Amsterdam

The chief selling point of the new European Union treaty under discussion in Amsterdam was always going to be its focus on freedom, security and justice for the people of Europe.

The big idea was to give citizens the right to move freely around the 15-country bloc, while guaranteeing their personal safety through harmonisation of laws in the field of justice and interior affairs.

The plan involves dismantling all internal border controls on mainland Europe, strengthening the external border and co-ordinating laws in areas such as asylum, immigration and visas. But the proposals on the table are so limited that reaching this goal may prove difficult.

Surprisingly, it was late second thoughts from Germany which led to a watering down of the revised treaty's ambitions.

As recently as last week, draft texts included proposals to introduce qualified majority voting in the Council of Ministers for decisions relating to asylum, immigration and visas and the free movement of people, after an interim period of 3-5 years.

But under pressure from Germany's 16 state governments, which share responsibility for immigration with the federal government, Bonn has completely reversed its position on integrating justice and home affairs. On its insistence such decisions remain subject to unanimous approval.

"The Germans have internal problems," said a Council official. "They think too much integration could lead to solutions that would create difficulties at home."

Some Länder, such as Bavaria, fear that co-ordinated EU immigration policies could grant third-country residents living legally in one EU country the same rights of movement as EU citizens. They have insisted Germany retain a veto on all issues relating to immigration policies.

The watering down has come as a bitter disappointment to countries such as Belgium, Luxembourg and the Netherlands, which want to co-ordinate policies on issues that remain the preserve of national interior ministries. What is more, they wanted to be able to tell their citizens that freedom of movement was to become as much a reality for people as it has become for goods and services.

It is doubtful that what is on the table will allow them to do this. Asylum, immigration and visa policy will be "communitarised", allowing the European Commission to initiate proposals and giving the European Parliament and the European Court of Justice a role.

But decisions will still be subject to unanimous consent, an arrangement that until now has blocked virtually any harmonisation on justice and home affairs. There is a provision for introducing qualified majority voting after five years, but the move will not be automatic – it will happen only if all member states agree or, according to a new compromise on the table, at least two-thirds.

Other issues, notably law and order, will remain matters for intergovernmental co-operation.

If the lack of ambition has disappointed the Benelux countries, it has helped avoid ructions with Britain. The UK has successfully negotiated the right to keep its border controls.

On the other hand, the arrangements pose problems for Denmark, which is obliged to hold a referendum on any decision that transfers sovereignty from Denmark to EU institutions. "Communitarisation" of asylum and immigration would involve such a transfer.

Following Denmark's No to the Maastricht Treaty, the government does not want to run the risk of a referendum again. But nor does it want to be frozen out of all negotiations and decisions relating to asylum and immigration. It is thus looking for a special arrangement.

Hacks' taste for a story has its limits

The egalitarian Dutch are happy to put anyone in their place if they overstep the bounds of their authority. One who was deemed to have done so yesterday – if only by a few metres – was Mr Doug Henderson, Britain's new minister for Europe. Going with a television crew to be interviewed on the banks of the Amstel river, he was turned back by a policeman because that was an area designated for the press to have their lunch.

The meals for hungry hacks are being served on canal barges moored alongside. Appropriate for a seafaring nation perhaps, but ministers and officials from the member states eat on dry land. As the Dutch presidency nears the end of its fraught six-month helmsmanship, The Hague probably feels there has been more than enough rocking of the European boat recently.

□ □ □

Shunning the fare on offer at his Hotel de l'Europe, Belgium's prime minister, Mr Jean-Luc Dehaene, was spotted dining on Sunday with a small group of advisers at the popular and distinctly unpretentious Restaurant Luden in central Amsterdam. Rather than an elaborate array of choices, it offers a three-course set menu of unfussy dishes for a frugal Fl 44.50 ($22.80).

Was this a gesture of disapproval for the Europe à la carte which some other leaders have been pursuing? An indication that, with the Belgian budget deficit closer to 4 per cent of gross domestic product than Maastricht's 3 per cent maximum, expenditure restraint has reached the highest levels of government? Or merely that Mr Dehaene, who rivals Chancellor Helmut Kohl for portliness, was seeking to do a bit of his own belt-tightening?

That consideration may have been jogged by an alarming prospect which the heads of government face today: their host city is presenting them each with a bicycle, in the clear hope that the "family photo" which traditionally ends the summit will depict the 15 astride their new conveyances. Made by Batavus, part of Atag Holding, a Dutch consumer products group, they have been sprayed silver-grey and adorned with the Amsterdam municipality's "Capital of Inspiration" logo. No mention of specially strengthened frames, though.

□ □ □

Queen Beatrix gives every impression of being as comfortable on the seat of her bicycle as on the throne. She may have been able to provide some pedalling pointers yesterday when she received the heads of government for lunch at the palace on the city's Dam square. She reminded them that the palace was a gift from the city: it was previously the town hall.

Its presence accords Amsterdam the designation of capital of the Netherlands – The Hague is merely the seat of government. Though Crown Prince Willem-Alexander is next in line, the House of Orange has had a woman as monarch since 1898. Female company for her was absent at yesterday's lunch, however, and Amsterdam's Mayor Schelto Patijn remarked on local television that the current composition of the European Council was "a bit of a gentlemen's club".

No one was actively lamenting the absence of Baroness Thatcher, who had departed the scene by the time of the Maastricht summit in December 1991, when the Dutch were last in the chair. But the final version of their draft Treaty of Amsterdam, circulated yesterday, contains a number of provisions committing the EU to promote gender equality. This may satisfy the European Women's Lobby, representing 2,700 member associations, which had petitioned the presidency for such changes. "Women are no longer willing to sit on the substitutes' bench of team Europe: we must line-out with our male partners," said Ms Gertrud Wartenburg, its president. Tough stuff.

Gordon Cramb

Taking the protest to the politicans: Spanish olive growers demonstrate against subsidy cuts in Amsterdam's city centre AP

Iri privatisation moves into a higher gear

The Italian treasury has won an important battle to speed up the privatisation of companies owned by Iri, the state holding company, by refusing to renew the three-year mandate of chairman Mr Michele Tedeschi.

The removal of Mr Tedeschi was approved over the weekend by the government after two weeks of intense infighting over his future. The move was endorsed yesterday at Iri's annual meeting.

He has been replaced by Mr Gian Maria Gros-Pietro, 55, a respected industrial economic professor who is an adviser on strategy to the industry ministry.

The new chairman's brief is to wind up this huge holding – created during the 1930s depression under the dictator Mussolini – within the next three years.

"This is the last mandate and the three-year period must be observed," said Mr Pierluigi Bersani, the industry minister. He added: "The new leadership must accelerate privatisations and are fully qualified to do this, keeping in mind industrial strategy."

The treasury, responsible for the state's shareholding in Iri, had become increasingly frustrated over the slow progress of privatising Iri's extensive assets. This first surfaced last December when the treasury took direct control of Iri's stake in Stet, the state-controlled telecoms group. On this occasion Mr Carlo Azeglio Ciampi, the treasury minister, announced Iri's traditional role had finished and the logical move was to wind it up.

Since 1992 divestmants have totalled over L24,000bn which the Iri management insisted was a good track record. But at the end of last year consolidated net assets were still L10,600bn with holdings as varied as Alitalia, the national airline, Fincantieri, the leading builder of cruise ships; Finmeccanica, the high technology and defence group, the RAI state broadcasting organisation, and Banca di Roma. Against these assets were debts of L9,400bn – nearly double the figure set by the EU Commission under a 1993 agreement.

The management shake-up should go some way to placate the growing impatience of Mr Karel Van Miert, the EU competition commissioner, over Iri's failure to honour this agreement. A deadline to reduce Iri's debt to around L5,000bn had been fixed for the end of this month; but the holding is almost certain not to meet the target because there have been delays in the sell-off of Autostrade, the motorways group.

Both the treasury and the industry ministry had sought to remove Mr Tedeschi. However, he had important allies in Mr Romano Prodi, the prime minister, who had held his job at Iri on two separate occasions for a total of eight years, and in Mr Enrico Michele, who was recruited from being managing-director of the holding to run the prime minister's office.

A compromise to allow Mr Tedeschi to remain with reduced powers was rejected by Mr Tedeschi himself.

The treasury had hoped to appoint Mr Paolo Baratta, an economist and former minister in the Ciampi, Amato and Dini governments. But apparently in a sop to the Prodi camp and to the left, the choice fell on Mr Gros-Pietro. He is deputy head of the scientific committee of Nomisma, the Bologna-based research organisation and consultancy, which Mr Prodi helped found.

The treasury is likely to pay a high price for getting its way over Iri.

This may well take the form of being obliged to accept a 'softer' reform of pensions and welfare. Mr Prodi and his allies on the left are reluctant to confront the unions on this issue in the wake of the Socialist victory in the French elections.

Robert Graham

CORRECTION

Conference on Albania

The Rome international conference on Albania will not take place on Wednesday June 18, as indicated in the FT Guide to the Week yesterday. A date for the conference will be fixed after the Albanian elections on June 29.

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Referendums fail after low vote

By Robert Graham in Rome

The future of referendums as an instrument of political and social reform in Italy was in doubt yesterday after only one-third of the nation's 49m electorate bothered to vote in ballots held last Sunday.

The turnout fell well short of the 50 per cent required to make the votes valid, and as a result all seven referendums were annulled. It was the lowest level of voting since referendums were introduced in Italy in 1974.

The issues that Sunday's referendums were meant to decide ranged from abolishing the treasury's right to a "golden share" in privatisations and ending discrimination against conscientious objectors to excluding hunters from private property and ending the journalists' closed shop. All but one had been promoted by the movement headed by the veteran radical Mr Marco Pannella, who had originally sought to introduce referendums on no fewer than 19 different issues.

The outcome was a big personal setback for Mr Pannella. However, he appeared undaunted yesterday, promising to promote 30 new referendums.

In contrast, the main political parties treated Sunday's polls with scant enthusiasm, and had made little effort to stimulate interest in the issues at stake. There was a widespread feeling the referendum movement had undermined its credibility by forcing the public to take a stand on issues of concern to only specific interest groups. Originally the referendum movement had focused on big issues which crossed the party divide such as divorce and abortion.

Mr Pannella tried to explain the poor turnout by blaming the media for deliberately avoiding discussion of the referendums. But the television and the press – thanks to Mr Pannella's protestations – had provided ample coverage. In the poll itself all the proposals put forward by Mr Pannella obtained an average of almost two-thirds of the votes cast.

The outcome is likely to lead to a reassessment of the whole referendum process. In particular, parliament is expected to focus on whether the existing requirement for a referendum to have a minimum of 500,000 signatures before it can be examined by the constitutional court.

The referendum movement has proved it is relatively easy to obtain the necessary 500,000 signatures, and this minimum may now be raised closer to 1m.

> The turnout fell well short of the 50 per cent required to make the votes valid. It was the lowest level of voting since referendums were introduced in Italy

EUROPEAN NEWS DIGEST

Bank suspends Bosnia loans

World Bank loans and new reconstruction projects for Bosnia have been suspended after the country's failure to make an $8m payment on its external debt. A 30-month grace period on the instalment expired last Friday, the bank said.

Bosnia owes $2bn as its share of former Yugoslavia's debt and is currently servicing a consolidated $680m loan to the World Bank with regular six-month payments. However, officials from the country's cash-strapped Serb entity say they cannot pay their $3.8m share of the $8m instalment.

The World Bank is concerned that the debt problem could undermine plans to win £1.4bn in aid pledges at a fund-raising conference for Bosnia scheduled for June 24 in Brussels.

Reuter, Sarajevo

Commerzbank tax payment

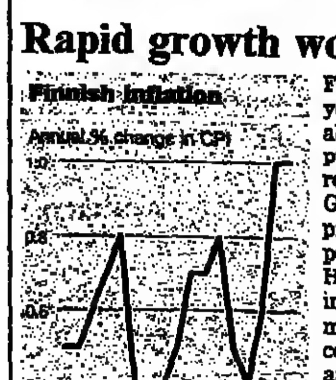
Commerzbank has settled its dispute with Frankfurt tax authorities by paying most of the DM500m ($295m) demanded. But prosecutors are still investigating directors responsible for the bank's tax affairs between 1984 and 1994. The dispute centred mainly on the tax position of foreign operations.

The bank said its tax reserves were larger than the amount paid, so there would still be money left over. Analysts put this at about DM100m, which would be added to 1997 net profits. They estimated the bank had paid about DM450m.

The continued investigation of top employees was questioned by the bank because, it said, there were no firm guidelines at the time on how assets of foreign subsidiaries and changes in country loan risks should be handled.

Andrew Fisher, Frankfurt

Rapid growth worries Finns



Finland's central bank yesterday voiced concern about growing inflationary pressures stemming from robust economic growth. Gross domestic product is projected to expand by 4-5 per cent this year. However, it saw no immediate need to tighten monetary policy. The country's inflation rate is among the lowest in the European Union. Consumer prices rose 0.2 per cent in May, against April, according to official figures, but remained at 1 per cent on an annual basis. A 2.9 per cent rise in house prices was the main factor behind the upward trend. The economy's buoyant state was demonstrated by a 7.9 per cent increase in annual industrial output in April, although this was below the 8.8 per cent recorded in March.

Greg McIvor, Stockholm

- Italian producer prices were unchanged in April from March and were 0.8 per cent higher year-on-year.
- Polish annual inflation fell from 15.3 per cent in April to 14.6 per cent in May

Lionel Barber spots a familiar theme in single currency preparations

Play it again, Paris and Bonn

Preparing for Emu

There was an air of deja vu about yesterday's summit compromise between France and Germany over budgetary discipline in the planned single currency zone.

Just six months ago in Dublin, EU leaders proclaimed with some relief they had reached agreement on a stability and growth pact designed to enforce sanctions against countries running excessive budget deficits.

Fast forward to Amsterdam, where a similarly relieved Dutch presidency announced that a breach between Paris and Bonn had been avoided on the very same pact.

"There are only winners in this game," said Mr Gerrit Zalm, Dutch finance minister, "there no losers."

Mr Zalm's comments scarcely do justice either to the war of nerves which has been running over the past seven days, since the new left-wing government in France announced it needed more time to consider the terms of the stability pact, or to the underlying divisions between the French and Germans over the operation of monetary union.

In terms of rhetorical commitment, Mr Lionel Jospin, the new Socialist prime minister, has made some headway in his campaign to put employment and growth at the top of the EU agenda, rather than following the German-led mantra of monetary discipline and fiscal austerity.

First, EU leaders will issue a resolution – a strong political signal rather than a declaration with legal weight – fleshing out existing provisions in favour of greater co-ordination of macroeconomic policies via EU finance ministers.

The French have pushed for new language to give the Council of Ministers a role in the formulation of euro exchange rate policy vis-a-vis the dollar and yen, while respecting the Maastricht treaty's stipulation that the primary role of the European Central Bank must be price stability.

"The French consider as a matter of principle that the future ECB in Frankfurt cannot exist in a political vacuum," explained a Dutch diplomat, "and so this is the first building block creating a political counterweight to the bank, a so-called economic government."

Second, Luxembourg, which takes over the EU presidency on July 1, will hold a summit on employment in the autumn. Though this risks becoming yet another EU talk-shop, French officials argue that it complements the employment chapter in the revised Maastricht treaty under final negotiation in Amsterdam.

Third, Mr Jospin has pressed his partners to consider fresh commitments to extend the range of loans which the Luxembourg-based European Investment Bank offers to infrastructure projects, as well as small and medium-sized businesses.

On the other side of the bargain, Mr Theo Waigel, Germany's finance minister and architect of the stability pact, claimed that Bonn had given no ground on three key points: the pact itself would remain untouched; there would no new EU-wide responsibilities for job creation; and the EU would not stump up one extra sou for make-work initiatives dreamt up in Brussels.

Mr Waigel's claim was supported by the British and Dutch, both of whom have taken a hard line against increases in the EU budget. "These matters may be open for some people," said one Dutch diplomat, "but they are closed for others."

The EIB also issued a note of caution yesterday, noting that it had already lent Ecus 33bn ($37bn) on the trans-European infrastructure networks (TENs) since December 1992.

The EIB's basic reserves amount to Ecu6.2bn, as well as a supplementary reserve of Ecu5.3bn this year, bolstered this year by Ecu800m from treasury operations. The riskier the EIB's lending profile, the greater the need for strong reserves – or the Bank's triple A credit rating could be put in jeopardy.

The wild card in these calculations is Mr Waigel. He shocked his fellow finance ministers a week ago by announcing that Germany intended to claim a dividend from the EIB, the first-ever in its nearly 40-year history.

Mr Waigel's request was one more sign of how cash-strapped the Bonn government is as it tries to meet the Maastricht deficit targets for the single currency, and why Germany looks askance at French request for more spending. In this respect, Amsterdam, like Dublin, looks like a mere dress rehearsal for battles to come.

Markets more sure of Emu start on time

By Wolfgang Münchau, Economics Correspondent

Franco-German efforts to find a compromise over the stability pact have strengthened market expectations that European economic and monetary union (Emu) will go ahead on time with a wide membership base.

J.P. Morgan's Emu calculator, which reflects market expectations, puts Italy's chances back up at 60 per cent, after 55 per cent a week ago. Expectations that Spain and Portugal will join Emu by 1999 have also gone up.

The market data are consistent with a recent report by the Organisation for Economic Co-Operation and Development, which showed a high degree of economic convergence between Emu candidates.

In the financial markets, there is now a strong expectation that the list of Emu participants in 1999 will include every EU country except Greece, the UK, Denmark and Sweden.

Greece is not expected to fulfil the Maastricht Treaty's convergence criteria until the year 2001, while the other three countries are expected to delay their Emu entry voluntarily.

In its latest economic outlook the OECD forecasts that Germany, France and Italy are heading towards budget deficits of 3.2 per cent of gross domestic product in 1997, just outside the Maastricht treaty's reference value of 3 per cent. But the projections are within normal error margins.

Mr Stephen Potter, the OECD's acting chief economist, said: "Countries generally have made a lot of progress in terms of their fiscal consolidation. Paradoxically, Germany has mada the least." The recent change of government in France is not yet reflected in the OECD forecast.

Italy's expected 1997 deficit will make it difficult for EU leaders to exclude the country from the first wave of Emu. However, Italy could still stumble over the projected increase in the deficit-to-GDP ratio to 3.8 per cent in 1998, a year during which the deficit ratios of Germany and France are forecast to fall. But Mr Potter said: "Italy still bas time to announce further measures."

Latest data no longer support the case for a "hard-core" Emu, based on 5-6 countries, said Mr Potter.

Emu: who's going to make it

J P Morgan Calculator June 16 1997

	Yesterday	1 week ago	4 weeks ago
Germany	100%	100%	100%
France	100%	100%	100%
Belgium	100%	100%	100%
Portugal	77%	72%	81%
Spain	76%	71%	80%
Finland	72%	70%	79%
Ireland	44%	62%	75%
Sweden	62%	58%	62%
Italy	60%	55%	64%
Denmark	38%	41%	51%
UK	38%	44%	52%

The Emu calculator reveals, real time, the probability of individual countries joining Germany in a monetary union in 1999 implied by financial market prices. Market probabilities are derived from the interest rate swaps market, in which investors swap floating-rate interest payments for fixed-rate ones.
The implied probability of Italy participating in Emu in 1999 can be calculated looking at where the spread between post-1999 lira and D-Mark swap rate lies, between the zero level implied by Emu and the level we would expect if Italy is not in Emu. Italy's non-Emu spread is estimated by currency strategists at J.P.Morgan using the pre-1992 correlation of the lira-D-Mark swap spread with similar spreads outside Europe.

German unions open to change

German unions have shown more willingness recently to modify the rules of the country's notoriously inflexible labour market, but full flexibility is still a long way off. Without it, European monetary union might be hamstrung from the start: 4.4m unemployed, or 11.4 per cent of the workforce, in Europe's biggest economy hardly seems sensible preparation for the pressures the single currency is likely to bring.

When exchange rates are locked, something else has to give when economic adjustment is needed. Sometimes fiscal policy can help – taxes rise in wealthier regions to pay for increased spending in areas facing harder times. However, in Emu as it is presently envisaged, fiscal flexibility is likely to be restricted by the stability pact designed to keep countries' spending under control.

The labour market provides another means of adjustment. In depressed regions, wages fall until the unemployed can be put back to work. But this relies on wages being able to fall. In Germany, where strict government regulation and strong unions prevent wages from falling, this is not always the case. Companies also face big costs if they have to make workers redundant.

This failing lies at the heart of eurosceptics' dark visions of what might go wrong after Emu. If wages do not adjust to make depressed regions competitive again, whole countries could be doomed to chronic unemployment, or – perhaps worse – there could be large-scale migration of labour from struggling areas to areas where there are more jobs. The political pressure might bring the collapse of the whole Emu project.

The German government, employers and unions have all recognised the need to take concrete steps to free the labour market. Perhaps the most visible change has been the reform of shop opening hours introduced at the end of last year. This allowed shops to extend their hours until 8pm on weekdays and to 4pm on Saturday. The hope was that increased shopping time would lead to more jobs, but the impact has in fact been limited.

The biggest strides towards greater flexibility have been made in manufacturing industry – the area most open to the pressures of international competition.

Here, companies such as Daimler-Benz, the industrial group, have managed to strike agreements with trade unions which are specific to individual factories rather than collective industry-wide wage deals of the past. They can now ask their employees to work for longer hours and at weekends when demand is strong, and to work shorter weeks when the order books are not as full.

Perhaps the latest and most striking example of greater flexibility was this month's agreement between unions and companies in the chemical industry, one of Germany's most important. This pact allows companies to cut wages by up to 10 per cent during economic downturns in return for not laying off workers. This followed the deal in April by Ford's loss-making German arm to cut workers' benefits to save $120m a year in costs in return for keeping jobs and investment in Germany.

But more conservative unions remain resistant to change. Earlier this year the metalworkers' union called for a further shortening of the working week to 32 hours – prompting cries of outrage from companies such as Bosch, the electronics group, which warned they would shift more of their production abroad if the union was successful.

In fact, Germany is now probably a victim of its own success. Some economists argue that the limited advances the country has made in freeing its labour market mean that employers have not had to take on new workers during the present gradual economic recovery as they would have done in the past. The OECD last week spoke of Germany's "jobless recovery".

Labour market flexibility might not matter in Emu as much as is feared. Some economists argue that if capital can move freely, companies can move their investments to depressed – and therefore cheaper – areas so that people do not have to move away.

Economists such as Thomas Mayer at Goldman Sachs in Frankfurt think the situation will have to get yet worse before government and unions are forced to make more improvements. Eventually, the increasingly flexible agreements made at the company level will whittle away the authority of the unions, forcing them to change. The greatest catalyst for transformed labour markets could be Emu, which itself might not survive without liberalisation.

Graham Bowley

Croatia's election 'free but not fair'

By Guy Dinmore in Zagreb

International monitors yesterday condemned Croatia's presidential elections as seriously biased in favour of the nationalist incumbent, Mr Franjo Tudjman, who swept to victory with more than 60 per cent of the vote.

"It did not meet the minimum standards for democracies," the Organisation for Security and Co-operation in Europe (OSCE) said in a report on Sunday's election. "Croatia has experienced a free but not fair election. While candidates were able to speak freely, the process leading up to the election was fundamentally flawed."

With votes counted from 95 per cent of polling stations, President Tudjman was leading with 61.2 per cent, against 21.1 per cent for Mr Zdravko Tomac of the leftwing Social Democrat party and 17.7 per cent for Mr Vlado Gotovac of the centrist Social Liberal party.

The turnout of 57 per cent was the lowest recorded in a Croatian election. The two opposition candidatea blamed the lack of interest on minimal coverage given by the national radio and television networks, both tightly controlled by Mr Tudjman's Croatian Democratic Union (HDZ).

The OSCE mission, witb 104 monitors led by Mr Paul Simon, a former US Senator for Illinois, said Croatia's desire to become an integral part of Europe was not likely to be achieved until it held "fully free and fair elections" and demonstrated "that the days of ethnic prejudice are relics of the past".

Among the criticisms levelled by the OSCE was the fact that 10 per cent of the electorate lived outside Croatia and many were ethnic Croat citizens of Bosnia. Their alectoral franchise contravened the 1995 Dayton agreement that ended the war in Bosnia, it said, noting that in the 1995 parliamentary elections more than 90 per cent of Croats voting outside Croatia backed the governing HDZ.

The outspoken attack followed sharp criticism of Mr Tudjman by Mrs Madeleine Albright, the US secretary of state, during a visit to Zagreb last month. She made it clear that Washington would block International Monetary Fund and World Bank loans if Croatia failed to make progress on several issues, including the extradition of indicted war criminals, the peaceful reintegration of Serb refugees and full support of the Dayton peace accord.

Mr Tudjman, who led Croatia to indapendence from Yugoslavia in 1991, showed little sign of bowing to western pressure before the election. But diplomats were hopeful that, with another fiva-year mandate, he would make some concessions.

Diplomats said Mr Tudjman was likely to get a further rebuff next month when the United Nations Security Council is expected to extend by up to six months the mandate of a 5,000-strong force in eastern Slavonia. The rich but war-devastated region on the border with Serbia is the last Serb-dominated enclave inside Croatia and was due to return to Zagreb's control on July 15.

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President Boris Yeltsin: waving a warning finger at regional governor in Russian far east Reuter

Yeltsin does battle with regional boss

By John Thornhill in Moscow

President Boris Yeltsin yesterday prepared tn do battle with one of the country's most powerful regional governors by threatening to call early elections in the troubled Primorsky region in Russia's far east.

The trial of strength between the Kremlin and one of the country'e most important regions could determine how much autonomy Russia'e 89 constituent republics are able to exercise and set the pattern of federal relations for years to come.

The latest political salvo from Moscow followed a visit to the region last week by Mr Boris Nemtsov, the first deputy prime minister. In his role as energy minister, he was investigating a severe energy crisis in Russia's far east that has paralysed the local economy and prompted months of bitter recrimination between federal and local authorities.

Moscow officials have accused Mr Yevgeny Nazdratenko, the regional governor, of aggravating the crisis and accused him of corruption and incompetence. Bnt Mr Nazdratenko bas blamed the Kremlin for failing to transfer the funds needed to solve the region's problems. The row has been further complicated by a personal political feud between Mr Nazdratenko and the mayor of Vladivostok, the regional capital.

Mr Nemtsov yesterday recommended that early elections should be called to choose a new governor and a new mayor to help resolve the political impasse. But he added that the energy situation in the region was beginning to stabilise, thanks to the work of a special ministerial commission.

Russian news agencies reported that Mr Yeltsin had accepted the idea of early elections in principle hnt gave no details about when they might be held.

Mr Nazdratenko is a contentious figure in Russian politics, but he has recently attracted some strong support from opposition leaders in Moscow. Mr Alexander Lebed, the former secretary of the security council, recently urged him to stand up to the Kremlin. "All Ruesia is watcbing yn watching and believing th a lackey will not appear the Primorsky region." Lebed said.

But Mr Gennady Sele nyev, the Communi speaker of parliament, ye terday urged both Mr Na dratenko and the mayor Vladivostok to resign sim taneously, clearing the w for fresh elections. "It is impossible situation wh two officials in a single ci wage war on one anothe he said. "As a result, a hn territory suffers."

However, Mr Selezny did not support the gover ment's line over its plann hudget cuts, and said t regional authorities h first to approve them.

The government h hoped for speedy parliame tary approval of its revis hudget plans, which claims are essential for p ting public finances order. Nonetheless, gover ment officials promised th they wonld be ahle deliver on their promises pay off arrears to pensione and federal employees July 1.

Romania struggles to keep industrial policy on road

Anatol Lieven on government's problems in shutting bankrupt and outdated state businesses

A Romanian motor vehicle factory sports an advertising slogan that may, to western eyes at least, suggest it lacks a feel for international marketing. "DAC Trucks: The Modern Spirit of Dracula Castle" promotes products of the country's flagship Roman factory in the Transylvanian city of Brasov.

The plight of the Roman enterprise – short of orders, shrunk in size and deep in debt – is not uncommon in Romania. It illustrates both the desperate state of much of the country's industry and the difficulties faced by the new government in liquidating or selling off bankrupt state enterprises.

Before the 1989 revolution, Roman employed 23,000 workers and produced tens of thousands of trucks a year for the Soviet bloc and its allies. By last year, the workforce was down to 13,800, while production had dropped even faster, to just 2,800 vehicles annually.

So far this year, Roman has turned out 400 trucks and sold 115, figures, in the words of one western analyst, "which spell a death sentence".

Roman's total debt is now more than 500bn lei ($70m), mainly owed to the state. Last year alone it lost 96bn lei.

The government stepped in to help in April with an order for 500 military trucks, and ordered the state power company to restore electricity supplies, which had been cut off for non-payment of debt.

The aid followed street protests by thousands of Roman workers, who were alarmed at being sent home on temporary leave, fearful of an immediate shutdown.

Government officials claim that Romanian workers now accept the need to liquidate hankrupt enterprises. But workers at the Roman plant are reluctant to accept that theirs should be axed.

"We agree with a correct kind of privatisation but not that there should be unemployment as a result," said Mr Alexandru Tudorache, a mechanic standing by a very sparse assembly line. "It is wrong that I should have worked here for 26 years and now am afraid of the future. But anyway, this line will never be closed, because it is so efficient."

However, Mr Lucian Stan, financial director of Roman, is doubtful.

"We have had a few contacts with foreign companies, but only very preliminary and exploratory," ha said. "Anyway, it is clear that they will never buy the whole factory. We are now drafting a plan for splitting it up, so that different sections can be sold more easily to foreign investors."

The managers say that ths assembly lins has relatively good chances of finding a huyer – but that the result will probably still be the dismissal of most workers.

Tha government's intervention after the Roman protest – albeit a limited retreat – has raised doubts about its ability to shnt big enterprises and make their workers redundant, at least at the speed it has promised the International Monetary Fund and World Bank. Mr Marius Stoienovici, editor of the newspaper Buna Ziua, said: "I simply can't believe the government will have the courage to shut factories like Roman, even if they are black holes for state money."

Roman workers and their dependants, together with those at the heavily indebted Tractorul factory, make up almost a third of the local popnlation, and their chances of finding other jobs are not bright.

Roman's problems are threefold. For a start, the domestic market for expensive goods such as trucks has collapsed, as more and more Romanian enterprises become indebted, and especially since the government has freed energy prices.

Roman's lorries are also too outdated to appeal much internationally. Last year, for instance, foreign sales accounted for only 8 per cent of the total. Finally, botb managers and government are still reportedly not being wholly realistic about the value of such plants.

Closing Roman will be a thorny task. Apart from the risk of social unrest, plants like Roman are defended hy political allies, rooted partly in regional loyalties to local flagship industries.

In Brasov, for example, Roman forms part of Asinco, an association of local state and private factories and tourism concerns whicb wields considerable influence over some of the parties in the government coalition – and this is also true elsewhere in the country.

Not eurprisingly, therefore, just drawing up tbe first list of 10 bankrupt plants involved a long and hitter struggle within t government, and w achieved only under the la of an imminent IMF visit.

Roman was not in fact the government's first list 10 officially bankrupt sta plants issued in April h officials concede tbat t lists of factories and sta farms for liquidation we finalised in a rush to coi cide with visits by top o cials of the IMF and Wor Bank.

Since the list of ten w issued, the two biggest co panies, the Petrommidia a Darmanesti oil refineri bave been removed a fresh efforts are being ma to find international buye The remaining eight a mostly small and account f only 3 per cent of the tot indebtedness of companies.

NEWS: THE AMERICAS

Prayer and protest save middle-class perk

Plan to end NY rent control fails

By Richard Tomkins in New York

New York'e hyzantine system of rent controls is to remain almost unchanged following the collapse of an ettempt by state Republicans to bring market forces to bear on apartment rents.

Political leaders, yielding to outrage from middle-class Manhattanites fearful of losing one of their most valuable perks, were yesterday working on the details of a compromise that will preserve nearly all the controls for six more years.

The rent control laws were due to expire at midnight on Sunday night if not renewed or replaced, and Republican efforts to introduce reforms had prompted increasing anxiety among apartment-dwellers as the deedline drew closer.

At St Patrick's Cathedral in Manhattan, Cardinal John O'Connor asked the congregetion to pray for those involved in the negotiations, and hundreds of New Yorkers held e candlelight vigil ontside the Manhettan offices of Mr George Pataki, the Republican governor of New York State.

Rent regulation applies throughout New York state, but most of its benefits go to the middle-class tenants of apartments in Manhattan, where the gap between regulated rents and market rents is greatest.

Some 86 per cent of apartments in Manhattan are regulated, and about 40,000 of them are occupied by people earning $100,000 a year or more.

Many tenants pay just e few hundred dollars a month for apartments that would fetch at least $2,000 on the open market.

Stats Republicans had proposed that existing tenants should keep their perks, but that apartments shonld become deregulated when tenants moved ont. Democrats, and an overwhelming majority of Manhattan apartment dwellers, had vigorously opposed any change in the rules.

Under the plan evolving yesterday, apartments will remain regulated when tenants move on, but in e concession to the Republicans, landlords will be allowed to increase rents by 20 per cent when the apartment falls vacant, instead of 9 per cent as now.

Apartments will also be decontrolled if their tenants' income exceeds $175,000 instead of $200,000, as now. And nieces, nephews, aunts, uncles and cousins will be crossed off the list of nearest and dearest who can inherit regulated apartmants from the tenant whose name appears on the lease.

Peruvians protest over sacking of judges

President Fujimori sees his popularity plummet amid fears over the rule of law, reports Sally Bowen

As marches and demonstrations continue across Peru in protest at the sacking of three top judges, President Alberto Fujimori's popularity ratings have slumped still further.

An Apoyo research organisation poll published on Sunday night showed his approval rating at only 34 per cent: the only time in seven years' government that Mr Fujimori has scored lower was shortly before his 1992 palace coup when he dissolved congress and closed the courts.

Street marches in the past days have seen opposition politicians and the remnants of the union movement combine in protest with thousands of students from the law faculties of Peru's principal universities. It is the first time that students have turned out en masse against Mr Fujimori.

"We were sunk in lethargy but now we've woken up," said one. "The straw that broke the camel's back was the sacking of the Constitutional Trihunel jndgea," explained another. "There's no rule of law in Peru today."

Many Peruvians see the sacking of the judges as the latest in e series of abuses by an increasingly authoritarian government: the removal by congress of three members of the seven-strong, theoretically autonomous tribunal which rules on the constitntionality of laws. Though congress itself had eppointed them less than e year ago, the government majority in parliament objected to their recent decision ruling out a further re-election attempt by Mr Fujimori in 2000.

Happier days: Fujimori greets enthusiastic supporters after being sworn in as president. Now Peruvians are upset that judges who tried to block his re-election have been dismissed Reuter

Somewhat surprisingly, the issue has caught the popular imagination. Peruvians seem to have tired of the heavy hand of the executive and the unquestioning compliance of parliament. More than two thirds now want a referendum to settle the election controversy.

The treatment of the judges is far from the only source of domestic concern. It follows proof of abuses – torture and assassination – by the army intelligence service; the reveletion of the febulous earnings of Mr Vladimiro Montesinos, in effect chief of internal security and perhaps Mr Fujimori's closest ally; and e wave of ettacks on the local press which smack, for many Peruvians, of General Juan Velasco's de facto regime a quarter of a century ago.

Most ootorious of the anti-media initiatives has been against the influential Frecuencia Latina television channel and its proprietor, Mr Baruch Ivcher. Peru's joint chiefs of staff recently issued an unprecedented communiqué denouncing the Israeli-born, naturalised Peruvian entrepreneur for "systematically discrediting" the armed forces.

The business community has elso suffered recent harassment. Indications abound that the once respected and efficient tax authority Sunat is being used by the intelligence service and the executive to put pressure on those who criticise the regime or who may be future rivals to Mr Fujimori.

Public figures and institutions of many political hues have condemned the recent attacks on the tribunal and the press: they include the US ambassador to Peru; Confiep, Peru'a influential private business associetion; and Cardinal Augusto Vargas Alzamora, head of the Catholic Church.

Apoyo's Mr Alfredo Torres says recent moves underline the government's intention "at all costs" to secure another term in 2000. "They are betting all these questionable acts will be forgotten in time and that, with economic growth and more public works, Fujimori will be in a good position for re-election."

Demands for law reforms in Chile

By Imogen Mark in Santiago

Pressure is building for sweeping reforms to the Chilean justice system, as the Supreme Court has come under attack from the ruling centre-left coalition and the court's former allies on the far right.

President Eduardo Frei, who heads the coalition, has reqnested that the court meet urgently this week to discuss improvements to the administration of justice.

The shift by the opposition parties on the right was apparently triggered by the recent discovery of long-running attempts in the judicial system and the police to protect a drug-trafficker, Mr Mario Silva.

When Mr Silve was arrested in April after e three-year police investigation, charges were also brought against the Supreme Court fiscal authority, Mr Marcial Garcia Pica. But the head of the Supreme Court, Mr Servando Jordan, defended Mr Garcia Pica for practices which both men apparently regarded as normal – routinely influencing other jndges on behalf of accused.

Mr Jordan's remarks were widely criticised, most vociferously by Mr Carlos Bombal, a Santiago congressman and e member of the far-right Independent Democrat Union, which is closest to the former military dictator, General Augusto Pinochet. During the general's 17-year rule the judges were repeatedly criticised for a lack of independence and for failing to defend Gen Pinochet's opponents from being tortured and "disappeared".

After tha return to democracy in 1990, government senators brought charges against one senior judge who was said by one congressman to be "the model of a venal magistrate". He was removed from office, in the teeth of opposition from the UDI and most of the other rightwing senators.

The opposition has long agreed, however, on the need for reforms to the system, if not for changes among the judiciary, and a package of bills to modify the criminal justice system is before Congress.

But the president of the law association, Mr Sergio Urrejola, has warned that with the current judges and officials, "there is no chance of making deep and urgent changes", and no way to stop the widespread practice of influence trafficking.

Atlantic cable 'highway' launched

By Alan Cane in London

The first information superhighway across the Atlantic was launched yesterday, enabling far cheaper high-speed transmission of data through a fibre-optic cable.

Cable and Wireless, the UK-based communications group, announced the start of e global service based on asynchronous transfer mode, e technology which makes possible the transfer of data of all kinds – voice, text and video.

The first phase involves a link between the US and the UK to be followed by a roll-out across the rest of Europe and the Far East. The first customer for the new service is Tandem, e US computer maker, which intends to link a customer inquiry centre in the UK with headquarters in the US using the service.

The data are carried as electronic "packets" each individually addressed across the latest fibre-optic transatlantic cable.

A company with the need to send large volumes of data at high speed across the Atlantic would typically have to lease a line capable of transmitting 45m bits of data a second.

To lease such a line would cost about £2.5m ($4m) a year.

Mr Lance Spencer, director of business solutions for Cable and Wireless Communications, C&W's UK subsidiary, said the cost could be less than £500,000 under the new ATM service. This would transform the way companies did business, he claimed.

ATM is a high-performance, high-capacity technology that is particularly suited to such traffic as electronic mail, vidao, three-dimensional images and large amounts of data. It is usually associated with multimedia and the information superhighway because of its ability to transmit different kinds of data simultaneously.

A 12-second video clip – about 1bn bits of data – could be sent to the US in 12 minutes using ATM. With current ISDN technology, the transmission takes 12 hours.

Most of the main telecoms operators are experimenting with ATM or setting up commercial services. The C&W Global ATM service follows the launch of a national service in the UK earlier this year.

NEWS: WORLD TRADE

US group rules out Airbus engine deal

By Michael Skapinker in Paris

Pratt & Whitney of the US yesterday said it would not supply engines for the new Airbus Industrie 380-seat aircraft, leaving Rolls-Royce of the UK as sole supplier. The US company said it had severe doubts about the profitability of providing engines for the aircraft.

Mr Karl Krapek, Pratt & Whitney's president, said at the Paris air show that it would have cost his company $1.5bn to develop the engines and that the investment would not have generated a return for over 20 years. He would have considered this only if Airbus had appointed Pratt & Whitney sole supplier for the new aircraft, the 313-seat A340-500 and the 380-seat A340-600.

Airbus refused, however, to appoint a sole supplier and Pratt & Whitney withdrew. But Mr Krapek conceded that the US company's withdrawal had effectively made the UK group sole supplier. Negotiations between Airbus and General Electric of the US to supply engines for the aircraft broke down in February of this year.

Mr Colin Green, managing director of Rolls-Royce's aerospace group, said that his company would find it easier than Pratt & Whitney to make a profit on the engines because its development costs would be far lower. This was because the engine, the Trent 500, was based on the group's existing engine family. He declined to say how much engine development would cost.

Airbus said the new aircraft, which it expects to start developing in the autumn, would sell for between $140m and $150m each. Both aircraft would be based on the existing 295-seat A340-300 model. The 380-seater would compete with the Boeing 777 and smaller versions of the 747.

Rolls-Royce yesterday said that British Airways had confirmed selection of its RB211 engines for 14 Boeing 747-400s. South African Airways said it would use RB211 engines on two new Boeing 747-400s.

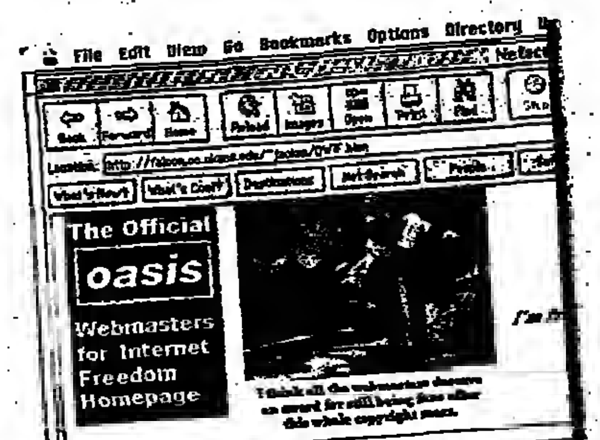
● AlliedSignal Aerospace yesterday said it had won $543m in new business at the Paris air show, agencies report.

The new contracts include a $175m production contract for AlliedSignal's F124 turbofan engine to power Aero Vodochody's L-159 trainer aircraft for the Czech air force. It also received auxiliary power unit contracts worth $88m for Airbus aircraft operators worldwide.

Other contracts include $130m in avionics and brakes business with German, Russian and Turkish airlines, and $100m for LHTEC, an AlliedSignal joint venture for propulsion engine systems for the Ayres Loadmaster utility aircraft.

Music pirates take to cyberwaves

Huge growth in digital jukeboxes has started to worry music industry



Searching for a favourite piece of music? Try tapping into the web site at *www.mp3search.base.org*, which should help you find it on one of the hundreds of digital jukeboxes now surfacing on the internet.

The jukeboxes are the 1990s equivalents of the pirate radio stations that pumped out pop music from North Sea ships in the 1960s. They release music over the internet in the form of MPEG3 digitally compressed files, called MP3s, which can be downloaded free of charge on to home computers.

Most pirate jukeboxes are run for free by young music buffs, often students using university servers. Although they do not make money, they are breaching copyright by distributing songs without the record companies' permission. Last week, the Recording Industry Association of America (RIAA), which represents the US record labels, initiated legal action against three unauthorised jukeboxes.

All three sites have now closed, but the number of internet jukeboxes is rising so rapidly that the RIAA, and its counterparts in other countries, will almost certainly take more to court.

Technically, it has been possible to operate digital jukeboxes for some time. Until recently they were expensive to set up, the sound quality was poor and it took too long to download the music.

Advances in technology have eroded those difficulties. Anyone who is reasonably computer-literate can store music from a compact disc (a near-perfect digital version of the original recording) on MP3 files, which can be posted on a web site.

Other people can then download each song on to their computer hard disks within 25 minutes using a typical modem, or two minutes on a speedier service like a cable modem, or ISDN telephone line. The music can be replayed on the hard disk, or recorded on to a $500 CD recorder.

Until recently, there were so few pirate jukeboxes that the record companies, musicians and music publishers, which are legally entitled to receive royalties whenever a record is sold, turned a blind eye.

Yet so many digital pirates have emerged since the start of this year, that the RIAA estimates there are now "literally hundreds" in the US alone, and a growing number in other countries. Downloading music free of charge from the internet is becoming increasingly popular among the 15 to 30 year olds who tend to be frequent record buyers and are often computer enthusiasts.

The music industry now stands to lose substantial sums of money because of the unauthorised distribution of its copyrights. Record companies are also concerned that the proliferation of pirate jukeboxes could jeopardise their own long-term plans to sell music on-line.

The RIAA, which had previously sent warning letters to suspected digital pirates, toughened its stance by taking three of them to court last week. It also intends to crack down on student-run jukeboxes by lobbying university authorities to stop them using campus servers.

Publicly, the RIAA has expressed its determination to continue to take legal action whenever necessary. Privately, it recognises that the new breed of digital pirates will be extremely difficult to control.

One problem is detection. For the past 18 months, the RIAA's anti-piracy unit has employed a team of investigators who surf the internet looking for copyright abuses. Individual record labels have also started hiring specialist digital detectives to track down infringements.

Even if a pirate jukebox is identified and closed down, it can easily set up again almost immediately at a new internet address. An additional problem is that copyright law is very weak in some countries, notably Luxembourg and Bulgaria.

The International Federation of the Phonographic Industry (IFPI), which represents the industry worldwide, is developing systems to control access to digital music signals by encoding them, and to "tattoo" them with an embedded signal for easier identification. Yet neither system is ready for use, and pirates may eventually find ways round them.

Battling against digital piracy also poses a marketing dilemma for the music industry. Internet jukeboxes have the same buccaneering air as the 1960s pirate radio stations. A concerted effort to curb their activities could prove counter-productive for an industry which regularly spends millions of dollars on publicity to nurture hip, anti-establishment images for its acts.

An embarrassing row erupted last month when Oasis, the UK rock group, threatened to prosecute any unofficial web sites dedicated to the band which used copyrighted music samples, photographs and video clips without permission.

The unofficial sites protested against the crackdown, and most media coverage was critical of Oasis. A new site, Oasis Webmasters For Internet Freedom, was launched to co-ordinate the protest. Its home page taunted Oasis by quoting the lines – "Don't ever stand aside, Don't ever be denied" – from *Roll With It*, one of the band's own singles.

Alice Rawsthorn

Stricter enforcement of aircraft aid pact urged

By Michael Skapinker

Ministers from the four countries involved in Airbus Industrie yesterday said they did not intend to renegotiate the 1992 US-European agreement on state aid to aircraft makers, but called for its terms to be more strictly applied.

Their announcement at the Paris air show follows calls last week by British Aerospace and Daimler-Benz Aerospace (Dasa) of Germany, two of the partner companies in Airbus, for the treaty to be renegotiated.

The treaty limits government investment in aircraft projects to a third of the cost of the programme. But the two companies said Boeing's takeover of McDonnell Douglas would allow the US group to use government defence funds to subsidise commercial aircraft.

The four ministers – Mr Jean-Claude Gayssot, French transport minister, Mrs Margaret Beckett, UK trade and industry secretary, Mr Gunter Rexrodt, German economics minister and Mr Josep Pique Camps, Spanish industry minister – said after meeting Airbus executives that it was more important that the 1992 treaty be properly enforced.

Mr Rexrodt said, in a reference to the US industry: "Some companies indirectly receive state support that distorts competition."

The ministers approved of plans by the four Airbus partners – Dasa, BAe, Aerospatiale of France and Casa of Spain – to form a single company which controlled manufacturing. The manufacturing issue has divided the partners. BAe and Dasa want Airbus to take over the four companies' factories but Aerospatiale and Casa want partners to retain ownership.

Mr Rexrodt said: "The ownership question will have to be resolved during the negotiation phase."

BAe and Dasa have said they are prepared to see the factories remaining under the partners' names, provided Airbus has full management control.

Mrs Beckett said of the plans to turn Airbus into a limited company by 1999: "I am concerned that we do not lose momentum and I hope that today's meeting, with its agreement to continue this process, will instil a sense of urgency into all those involved."

Audio-visual spending expected to soar

By Alice Rawsthorn

Consumer expenditure on audio-visual services in Europe is forecast to double in real terms by 2005 as new pay-per-view and interactive services are launched on the new wave of multi-channel digital television networks.

The rise will make consumer expenditure the fastest growing source of revenue for the audio-visual sector, according to a new study by Norcontel, a Dublin-based research consultancy.

Norcontel forecasts fairly modest growth in spending during the late 1990s, when digital television and on-line media are still at a fledgling stage. But the pace of growth is expected to accelerate after 2000, more than doubling in real terms from Ecu10.52bn (about $12bn) in 1995 to Ecu25.67bn in 2005.

The study suggests that the total value of the audio-visual market in seven European countries – France, Germany, Italy, Spain, the UK, Denmark and Ireland – will reach Ecu53.87bn in 2005 (at 1995 prices), nearly 70 per cent more than in 1995.

Advertising revenue from the audio-visual sector will also be stimulated by new digital services, and on-line advertising should become an important medium.

Conversely, licence fee income, worth over Ecu7bn in the seven countries during 1995, is expected to fall in real terms reflecting European-wide constraints on public sector spending.

Among the main beneficiaries of the audio-visual sector's expansion will be content providers, such as feature film producers and television programme makers. Their income is expected to double in real terms from Ecu8.9bn in 1995 to Ecu16.12bn by 2005.

Norcontel suggests that European content providers will gain a larger share of the expanded market. Their market share is expected to increase from 13 per cent in 1995 to 21 per cent in 2005.

The emergence of digital television as a significant medium for delivering audio-visual products to the home should trigger changes in the balance of the existing market.

Consumers may choose to watch films on the growing number of video-on-demand systems, for instance, rather than renting or buying video cassettes as they currently do.

Economic Implications of New Communications Technologies on the Audio-Visual Markets from Norcontel, 4 Westland Square, Dublin 2. Tel: 00 3531 670 8888.

Beirut under growing pressure over restrictions on food and cars

Public outcry over import curbs

By Samer Iskandar in Beirut

The Lebanese government is coming under increasing pressure to rescind protectionist measures and changes in import policies which have sparked unexpectedly strong opposition, even from within the ruling government.

The introduction of the unpopular measures also threatens to undermine the credibility of Mr Rafik Hariri, the prime minister, who was appointed on a platform of market-oriented reforms.

The government last week failed to convince a sceptical public that one of the new measures – duties of up to 200 per cent on imported cars – was justified on environmental grounds. A lower limit of L£5m ($3,200) means the poor, who buy cheaper used cars, face a heavier tax burden.

"The measures are completely arbitrary. They do not have any rational explanation," said Miss Helena Lati, a banker. "There has been no consultation [with industrialists, trade associations and the general public] and no consideration of what the effects might be."

The second set of measures involves stringent restrictions on food imports including a total ban on products such as ice-cream, cream cheese, eggs and several fruits and vegetables.

The government said the measures aimed to alleviate rural poverty, reduce the trade deficit and achieve food self-sufficiency.

However, Mr Kamal Shehadi, a research director at the Lebanese Centre for Policy Studies, an independent think-tank, believed the main beneficiaries would be Syria's agricultural exports which would be boosted significantly as foreign competition was eliminated."

Syrian exporters are to a large extent immune to the measures, as border controls between the two countries are ineffective. Farming experts have said the food import curbs could not themselves improve production but could cause smuggling, increase prices and reduce quality.

Car importers are arguing that the punitive tariffs will not reduce congestion and car emissions. "Pollution can only get worse," said a used car dealer.

"Most people will no longer be able to afford a new car. Instead of promoting replacement of old cars, the new tax will force people to keep using older, more polluting, cars."

Economists also pointed out that the new tax regime, if implemented, could accentuate inequality.

"What this will create is a new class of privileged," said an economist close to the government. "The new tax will mean that only a minority will be able to afford new cars," he added, referring to members of parliament and army and security officers, who are exempted from import duties.

Brussels may probe German coal subsidies

By Simon Holberton in London

German coal industry subsidies may come under the scrutiny of Brussels competition authorities after a British mining company petitioned the European Commission to stop the "dumping" of German anthracite in the British market.

Celtic Energy, a South Wales miner of the high quality black coal, claimed yesterday that subsidies from the German government have enabled two German miners, Preussag Anthrazit and Sophia Jacoba, to capture up to a quarter of the UK's 400,000-tonne-a-year market for anthracite.

Mr Keith McNair, chief executive, claimed German producers were selling their coal for less than their cost of production. "We're just after some fair treatment," he said. "The aggressive marketing of the German producers begged our response."

Bonn spends about DM10.3bn ($5.9bn) in subsidies to keep 85,000 miners employed in the coal industry. Of this, about DM350m goes to anthracite producers.

Mr McNair claims that it costs German producers up to £100 ($62.50) a tonne to mine and ship anthracite. He says they are selling it in the UK market for about £75 a tonne, less than prevailing market prices ranging from £85 to £100 a tonne.

Pressure is growing in Chancellor Helmut Kohl's coalition for big cuts to coal industry subsidies, leading to abolition after 2005.

German producers argue Germany needs to preserve an industry which exploits one of the country's few indigenous sources of energy. They also argue Germany would lose its position as a leading manufacturer of mining equipment if the coal industry were closed.

Mr McNair said the Welsh coal industry provided direct and indirect employment for 3,000 – jobs he claimed were under threat because of the German subsidies.

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Seoul acts to reform financial controls

By John Burton in Seoul

The South Korean government yesterday agreed to curb the influence of the powerful finance ministry by granting independence to the central bank and transferring financial supervision to a new watchdog agency.

The controversial proposal could, however, still be blocked by parliament and protests by civil servants worried about job losses.

The sweeping reorganisation of the government's financial powers reflects recommendations two weeks ago by an independent presidential commission on financial reform.

The creation of a single watchdog agency to replace three regulatory bodies overseeing banks, securities and insurance companies was taken in response to recent large corporate bankruptcies and corruption scandals that revealed apparently lax financial supervision.

The sudden collapse of the Hanbo steel group in January under nearly $6bn in debts caught authorities by surprise. A bribes-for-loans scandal ensued that has led to the conviction of 11 senior businessmen and officials. Eight more politicians were on trial yesterday in connection with the scandal.

The single regulatory body, the Financial Supervisory Board, will report to the prime minister instead of the finance ministry, which is now responsible for such regulation along with the central bank, which has a lesser role.

Analysts said the new agency would improve co-ordination among regulatory authorities, but some questioned its effectiveness. "Efficient financial supervision cannot be accomplished just by creating a new regulatory body. A quality improvement in financial supervision is also needed," said Mr Kim Hee-seong of the Hyundai Research Institute.

The reforms would also give the central bank its long-sought role of full responsibility for monetary policy, which has previously been subject to the political influence of the finance ministry.

Analysts believe central bank independence would result in more consistent financial policies, and make stable prices more likely through a monetary policy freed from political imperatives such as economic growth at the cost of inflation.

The central bank's trade union, worried about job losses, has threatened to strike if the proposal is approved by parliament. Workers at the other regulatory agencies made similar threats.

Parliamentary approval may be delayed, which would, in effect, kill the reforms. Parliament is scheduled to meet for the last time this month before a presidential election in December. But the opposition has so far blocked the opening of the session because of a feud with the government.

If no session is held, the proposals must be approved by the next president before being submitted to parliament. It is uncertain that the successor to President Kim Young-sam will support the measures.

Even if parliament meets this month, both government and opposition parties have reservations about rushing through approval of controversial reforms this year.

The finance ministry will still retain control over developing financial policy and proposing financial laws.

The ministry also succeeded in delaying possible changes in bank ownership laws that would give Korea's big conglomerates greater control of the main banks. Revisions of bank ownership rules were left out of yesterday's proposals pending more study before presidential approval.

Delhi sidesteps petrol product price increases

By Khozem Merchant in New Delhi

India's United Front coalition yesterday ducked a decision to raise politically sensitive prices of petroleum products, in the latest postponement of what is emerging as the biggest economic headache for Mr I.K. Gujral, the prime minister.

The UF said last night talks proved "inconclusive", an indication of the wide gulf that exists between pro-reform and leftwing factions in the coalition. Mr Gujral and his finance minister, Mr P. Chidambaram, support rises of between 15-20 per cent on kerosene, liquefied gas and diesel. But they continue to encounter leftwing opposition. Any rise would fall on the poor, who use subsidised kerosene for cooking and lighting. Diesel is heavily subsidised as a transport fuel.

In July last year, the UF government buckled under popular and political pressure and reduced by half a planned diesel price rise. Mr Gujral says "harsh decisions" are necessary, referring to the soaring "oil pool deficit" - which is government compensation to oil companies for selling refined products at below international market levels.

The deficit has soared because of rising global oil prices, a sharp increase in oil imports, falling domestic petroleum output and soaring subsidies – Rs184bn ($5.2bn) last year, double the previous year's. In 1994 the pool was in surplus; in July last year, it slumped to a deficit of Rs97bn. Today the deficit is rising by Rs300m a day and is forecast to reach Rs24bn by March next year.

Mr Chidambaram, who has to cut a high fiscal deficit (5 per cent of gross domestic product), says the deficit is unsustainable. Mr Sitaram Yechuri, of the Communist Party of India part of the UF government, says gas prices should be raised instead and alternatives considered such as abolishing tax concessions for the rich.

Yet the oil pool deficit is merely the headline figure of an industry that is skewed because of a complex system of cross subsidies, price controls covering 95 per cent of all petroleum products, and the interests of an oligarchy of domestic oil players.

Hydrocarbons remains one sector largely untouched by the reforms of the past six years. But if the government is serious on reform, it is likely to act on the recommendations of the so-called "R" (for reconstruction) report, written last year by a team led by Mr Vijay Kelkar, petroleum and natural gas secretary. Its three broad policy initiatives were:

■ Scrap the "administered price mechanism", a complex mechanism for controlling prices of refined products.

■ Reform state-owned oil companies such as ONGC, which produces 90 per cent of domestic crude and 45 per cent of requirements for downstream operators (the rest is imported) – an oligarchy of three players the biggest of which is Indian Oil Company.

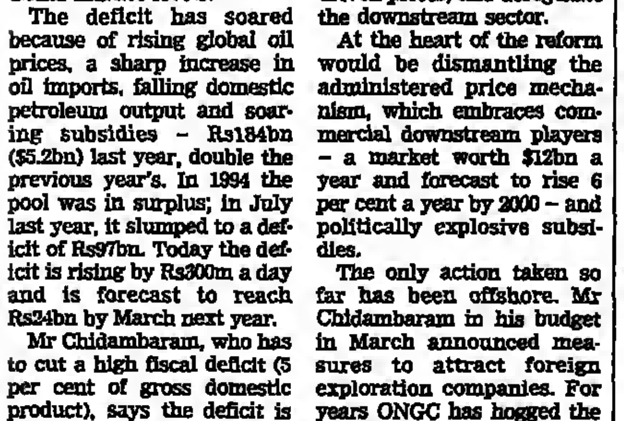
■ Create an internally competitive market.

The government has agreed in principle on a timetable for implementing the initiative by 2002. If implemented, it would overhaul the petroleum tariffs structure; allow market driven prices; and deregulate the downstream sector.

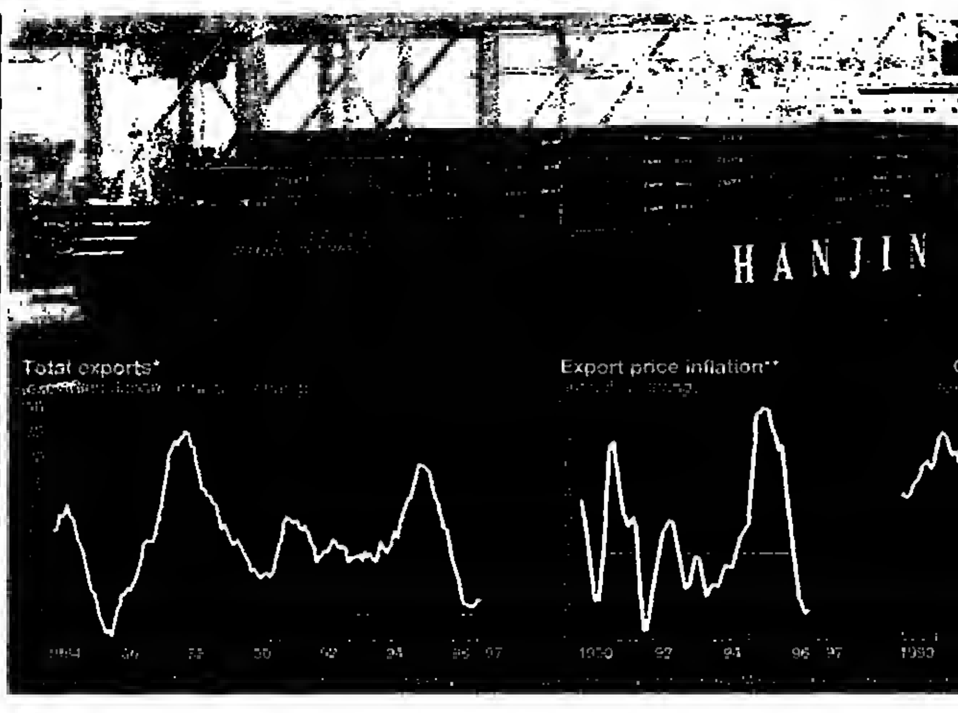
At the heart of the reform would be dismantling the administered price mechanism, which embraces commercial downstream players – a market worth $12bn a year and forecast to rise 6 per cent a year by 2000 – and politically explosive subsidies.

The only action taken so far has been offshore. Mr Chidambaram in his budget in March announced measures to attract foreign exploration companies. For years ONGC has hogged the best fields.

The new policy, which comes into force later this year and is designed to "produce a level playing field", simplifies bidding procedures, offers tax breaks and ensures companies are paid international prices for new oil discoveries. It is a small step, but it is what India's petroleum sector is accustomed to.



Source: Government figures



Over-capacity stalks the economies of Asian tigers

Mr Chen Zhao, managing editor of the prestigious monthly economic review, The China Analyst, is a gloomy man. On a recent visit to north-east China he says he found factories which had stopped production entirely, while the price of goods was falling in the shops.

It is evidence, he says, for his theory that China and many other countries in Asia are suffering from a serious over-capacity problem, not only in property but also in manufacturing. This is going to hold back the recovery from last year's export slowdown. "Somewhere down the road," he adds, "there is going to be a massive deflationary shock."

Such views put him well on the pessimistic end of the spectrum of expectations for Asia's economic development. However, while they think his fears are overdone, other economists agree that Asia has built up excess capacity in some industries in its headlong rush to invest. As a result the coming recovery is likely to be muted.

"In the next pickup you won't see the 10 per cent growth rates we saw in the past, though that in itself is not necessarily a bad thing. Growth will be more in the range of 5 to 7 per cent," says Mr Neil Saker of Crosby Securities in Singapore.

Mr Chen, whose review is published by the Montreal-based Bank Credit Analyst Research Group, rests his case on the high level of investment in emerging Asia so far this decade.

At an average annual growth rate of over 20 per cent this decade, investment has been rising about three times as fast as growth in gross domestic product, suggesting Asia has been suffering from a serious case of over-investment. Now, he says, capacity use is running at very low levels in countries such as China (below 60 per cent), South Korea (below 70 per cent) and Taiwan (72 per cent).

China and Korea are both suffering from very high inventories. In Korea's case these have been growing in spite of a rebound in electronics exports this spring. Regional export prices, which were rising by around 10 per cent a year at their peak, were falling by around 4 per cent annually by late last year. Still, in many countries foreign investment continues to flow in, creating yet more capacity that has to be absorbed in future.

The trouble is that the real state of affairs is very difficult to measure and is confused by the state of the cycle, says Mr Andrew Freris of BA Asia in Hong Kong. Very few countries in Asia in fact produce figures for capacity use, and reliable unemployment figures are hard to come by.

There is anecdotal evidence of an excess build-up of capacity in some areas, notably in the automotive sector where aspiring producers have been flooding markets in China and south-east Asia. Similarly there are concerns about excess capacity in traditional industries such as textiles in the Philippines, even though the overall impact on exports is masked by a strong growth in electronics products.

Mr William Overholt, regional economist at Bankers Trust says he thinks the problem is worst in countries such as China, Korea and Japan which employ *dirigiste* economic management. In Thailand, there is a problem because its government encouraged industries such as steel and petrochemicals that were not strictly needed.

But the problem of surplus inventories is not a general one, says Ms Annabel Betz of ING Barings. "Taiwan has really pared down on inventories, similarly Hong Kong last year, and Singapore. In theory these economies are better positioned."

The picture that emerges is one of a fragmented regional economy in which performance varies not only from country to country, but also from industry to industry within countries.

Overall, says Ms Betz, Asia will again rely on exports as a source of growth this year. According to ING Barings, Asia outside Japan saw growth of 7.5 per cent last year compared with 8.4 per cent in 1995. Export growth slumped to 5 per cent from 20.4 per cent, while consumption and investment were steady at 7 and 12 per cent respectively.

This year overall growth will be around 7 to 7.5 per cent, with export growth picking up to around 10 per cent. Consumption and investment may weaken as bank lending is reined in, so exports will again take the lead.

And says Ms Betz, a switch to more consumption would boost imports when incomes are already rising strongly. "Asian governments are in a bit of a bind. They have to keep that export machine going."

The best hope for Asia is that the Japanese economy starts growing strongly again and sucks in imports, says Mr Chen. "But no matter what Japan is doing, recovery in the rest of Asia is going to be very different from what we found in the early 1990s."

Mr Saker agrees. "What we're seeing is the emergence of a more cyclical environment over the next ten years rather than straight line growth."

Asian countries must invest continuously to upgrade capacity and keep themselves competitive in a global market, he says. As for falling export prices, they too reflect global competition, but that does not matter if productivity gains exceed the price falls. "Nowadays Asia must run fast to stand still."

Peter Montagnon

ASIA-PACIFIC NEWS DIGEST

Japan snubs UK on HK handover

Japan has told Britain that its foreign minister, Mr Yukihiko Ikeda, will attend the swearing-in ceremony for the provisional Legislative Council appointed by China as the law-making body for Hong Kong after the handover on July 1. Japan's move will be interpreted as a sign it has chosen to avoid offending China rather than stand by the UK and US, which have decided to stay away from the ceremony to avoid lending legitimacy to the council.

With New Zealand and Australia having decided over the weekend to attend the ceremony, the UK and US have yet to drum up support for their position. Britain is hoping to sign up some European countries at this week's Amsterdam summit and other industrial countries at the Group of Seven summit in Denver. But Canada has told Britain it is agonising over the decision and UK officials are uncertain about the position of France, which has previously paid little attention to the issue of Chinese human rights.

Separately, it emerged yesterday that Taiwan will be represented at ceremonies to mark Hong Kong's return to China by the head of a semi-official agency that handles its contacts with the mainland, according to officials in Hong Kong and Taipei.

The news raises the prospect of informal contacts between China and Taiwan during the handover proceedings. "There would appear to be the opportunity for them to confer on the sidelines," said one Hong Kong diplomat. In Taipei, officials said that Mr Koo Chen-fu, chairman of the Straits Exchange Foundation, had been approved to attend the events.

In spite of strained ties between China and Taiwan, Beijing views the handover as a step to reunification with Taiwan. It believes a successful transition in the case of Hong Kong would provide a model for Taiwan. Mr Stephen Lam, Hong Kong government co-ordinator of handover ceremonies, said 60 Taiwanese officials had been invited "in their personal capacities".

Peter Montagnon, London, and John Ridding, Hong Kong

Manila plans tax crackdown

The Philippine government said yesterday it planned to close a loophole in taxation on joint ventures by revising the system and making it uniform. Joint ventures in the Philippines are subject to 35 per cent corporate income taxation but those in the construction and energy sectors receive preferential treatment where companies are taxed separately in addition to the 10 per cent value added tax.

Ms Nene Guevara, undersecretary of finance, said preferential tax treatment on joint ventures in construction and energy, in spite of being reasonable, created tax distortions. "If joint ventures should continue to be encouraged, there is merit in taxing them uniformly," she said. *Justin Marozzi, Manila*

Japanese businessman seized

A Japanese businessman was kidnapped and a Filipino engineer shot dead in a southern beach resort in the Philippines yesterday. In the first known case of a foreigner being kidnapped this year, Mr Senichi Takayama was seized from a resort in Sarangani province, an area controlled in parts by the Islamic militants fighting for a separate Moslem state.

The incident is another blow to the administration of President Fidel Ramos, which has come under attack for its failure to contain the country's law and order problem. Foreigners are not generally targeted in kidnappings because they represent a greater risk, with the involvement of foreign embassies and a more concerted effort to catch the kidnappers. *Justin Marozzi*

Seven held in Vietnam swoop

Banking officials in Ho Chi Minh City said yesterday that police had detained seven senior banking executives in the latest twist to a debt scandal surrounding two of Vietnam's largest conglomerates. The officials said the five senior Incombank employees and two executives from the country's biggest state-owned bank, Vietcombank, were arrested on Saturday.

Local newspapers said all seven had been charged with "violating state regulations on economic management causing serious consequences". The arrests were the latest in a widening scandal surrounding the debt-crippled companies, Minh Phung and Epco, whose directors were detained in March and subsequently charged with fraud. *Reuter, Ho Chi Minh City*

INTERNATIONAL ECONOMIC INDICATORS: PRICES AND COMPETITIVENESS

Yearly figures are shown in index form with the common base year of 1985. The real exchange rate is an index throughout; other quarterly and monthly figures show the percentage change over the corresponding period in the previous year and are positive unless otherwise stated.

■ UNITED STATES

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1986	101.9	98.6	102.1	99.9	85.0
1987	105.6	100.7	103.9	98.4	76.1
1988	109.9	103.2	106.8	100.2	71.0
1989	115.2	106.5	109.9	101.8	74.9
1990	121.5	113.9	113.5	104.9	73.2
1991	126.6	116.3	117.3	108.4	74.1
1992	130.4	117.7	120.1	108.3	74.0
1993	134.3	119.2	123.1	108.2	76.4
1994	137.8	119.9	126.5	108.0	74.2
1995	141.7	122.2	129.7	108.3	68.7
1996	145.8	125.4	134.0	108.1	73.3
2nd qtr.1996	2.9	2.5	3.4	0.0	73.3
3rd qtr.1996	2.9	2.9	3.4	–0.1	73.5
4th qtr.1996	3.2	3.0	3.5	–0.5	74.8
1st qtr.1997	2.9	2.1	3.6	–0.1	77.8
June 1996	2.8	2.7	3.4	0.1	73.7
July	2.9	2.6	3.2	–0.8	73.5
August	2.9	3.0	3.5	0.1	73.1
September	3.0	3.0	3.4	0.4	73.8
October	3.0	3.1	3.3	–0.4	74.2
November	3.3	3.0	3.6	–0.9	73.6
December	3.3	2.8	3.7	–0.3	75.0
January 1997	3.0	2.5	3.0	–0.2	76.4
February	3.0	2.2	3.5	0.0	78.3
March	2.6	1.9	4.3	–0.2	79.1
April	2.5	0.9	2.9		79.4
May		0.3			77.8

■ JAPAN

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1986	100.9	95.3	101.4	102.7	116.5
1987	101.8	92.5	103.1	100.0	122.8
1988	102.3	92.3	107.8	96.0	161.0
1989	105.1	94.2	114.0	96.8	123.5
1990	108.3	95.7	120.1	99.7	108.2
1991	111.9	96.8	124.2	103.8	113.2
1992	114.0	95.9	125.8	112.8	114.5
1993	115.4	94.3	125.8	118.8	131.9
1994	116.2	92.6	128.4	118.5	137.4
1995	115.9	92.0	132.5	115.8	138.3
1996	115.9	61.8	135.8	113.4	118.8
2nd qtr.1996	0.1	–0.6	1.6	–0.3	120.7
3rd qtr.1996	0.0	–0.8	4.6	–3.4	117.7
4th qtr.1996	0.1	–0.8	2.0	–3.8	114.0
1st qtr.1997	0.0	–0.3	5.2		110.0
June 1996	–0.1	–0.8	0.8	1.5	118.7
July	0.4	–0.8	3.6	–5.4	118.1
August	0.0	–0.7	7.9	–1.7	118.5
September	–0.4	–0.8	3.0	–3.2	118.8
October	0.0	–0.8	2.8	–5.1	114.6
November	0.1	–0.8	2.5	–3.3	114.0
December	0.2	–0.4	1.4	–3.0	113.3
January 1997	0.0	–0.4	9.8	–7.4	111.4
February	0.1	–0.3	3.1	–2.2	109.1
March	0.0	–0.2	2.7		109.4
April	1.2				109.3
May	1.4				115.3

■ GERMANY

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1986	99.9	97.5	103.5	103.8	107.5
1987	100.1	95.0	107.9	107.1	111.0
1988	101.4	96.2	112.9	106.6	110.0
1989	104.2	99.3	117.1	106.0	107.6
1990	107.0	101.0	123.5	110.3	110.0
1991	110.9	103.4	131.3	109.7	107.8
1992	116.5	104.6	138.2	115.4	110.1
1993	121.7	105.1	145.9	119.2	111.4
1994	125.1	105.7	150.8	112.0	108.8
1995	127.4	107.5	155.8	110.9	114.9
1996	129.8	107.1		110.1	109.9
2nd qtr.1996	1.5	–0.6		0.7	109.6
3rd qtr.1996	1.5	–0.8		–2.3	109.9
4th qtr.1996	1.4	–0.3		–4.3	107.9
1st qtr.1997	1.7	0.6			106.3
June 1996	1.4	–0.8	n.a.	–1.0	109.2
July	1.8	–0.7	n.a.	–2.0	110.0
August	1.4	–0.7	n.a.	–3.0	110.5
September	1.4	–0.6	n.a.	–2.0	109.2
October	1.5	–0.3	n.a.	–3.8	108.0
November	1.4	–0.3	n.a.	–4.9	108.4
December	1.4	–0.3	n.a.	–3.9	107.4
January 1997	1.8	0.7	n.a.	–5.8	106.8
February	1.7	0.6	n.a.	–8.5	106.1
March	1.5	0.7	n.a.		105.7
April	1.4	0.6	n.a.		105.4
May	1.8		n.a.		105.1

■ FRANCE

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1986	102.5	99.0	104.5	101.6	103.4
1987	105.9	98.1	107.8	103.0	104.8
1988	108.8	102.9	111.5	104.1	102.2
1989	112.6	108.2	115.8	105.2	99.8
1990	116.5	107.1	121.5	109.6	103.0
1991	120.2	105.9	127.1	113.4	100.8
1992	123.1	104.3	132.3	115.6	104.3
1993	125.6	101.6	135.6	116.1	106.7
1994	127.7	102.7	138.2		108.2
1995	130.0	109.7	141.5		106.2
1996	132.5	105.6	144.9		106.3
2nd qtr.1996	2.4	–3.9	2.3		106.5
3rd qtr.1996	1.9	–5.2	2.6		106.2
4th qtr.1996	1.7	–3.9	2.6		105.9
1st qtr.1997	1.5		3.0		103.5
June 1996	2.3	n.a.	n.a.	n.a.	106.3
July	2.3	n.a.	n.a.	n.a.	106.5
August	1.5	n.a.	n.a.	n.a.	106.1
September	1.8	n.a.	n.a.	n.a.	106.2
October	1.6	n.a.	n.a.	n.a.	106.5
November	1.6	n.a.	n.a.	n.a.	105.9
December	1.7	n.a.	n.a.	n.a.	105.1
January 1997	1.8	n.a.	n.a.	n.a.	103.4
February	1.6	n.a.	n.a.	n.a.	103.5
March	1.1	n.a.	n.a.	n.a.	103.8
April	0.9	n.a.	n.a.	n.a.	103.4
May	0.9	n.a.	n.a.	n.a.	103.1

■ ITALY

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1986	106.1	99.4	104.8	102.6	101.8
1987	111.0	102.2	111.8	105.5	102.2
1988	116.5	105.7	118.4	109.7	101.0
1989	124.2	112.0	125.8	112.3	105.3
1990	131.7	116.2	134.7	118.8	112.0
1991	140.3	120.0	147.9	129.6	113.2
1992	147.7	122.3	155.9	134.5	109.6
1993	153.9	126.9	161.6	136.8	95.3
1994	160.0	131.6	167.0	138.1	93.4
1995	168.6	142.0	172.2	138.1	90.4
1996	175.0	144.7	175.3		102.0
2nd qtr.1996	4.2	1.6	2.1	2.5	102.1
3rd qtr.1996	3.5	0.4	1.7	0.7	102.7
4th qtr.1996	2.7	0.9	1.6		104.8
1st qtr.1997	2.4	0.9			104.3
June 1996	3.9	0.7	2.2	n.a.	103.0
July	3.6	0.3	1.9	n.a.	102.6
August	3.4	0.4	1.9	n.a.	102.2
September	3.4	0.5	1.3	n.a.	103.2
October	3.0	0.7	1.5	n.a.	104.8
November	2.6	0.9	1.5	n.a.	104.3
December	2.6	0.9	1.8	n.a.	105.5
January 1997	2.6	0.9	8.8	n.a.	106.2
February	2.4	0.8	3.9	n.a.	103.9
March	2.2	0.9		n.a.	102.1
April	1.7	0.8		n.a.	102.6
May				n.a.	102.4

■ UNITED KINGDOM

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1986	103.4	101.4	107.7	105.1	94.3
1987	107.7	104.9	116.3	107.5	94.7
1988	113.0	106.7	126.2	110.3	102.0
1989	121.8	113.9	137.2	115.1	100.6
1990	133.3	121.0	150.1	122.7	101.5
1991	141.2	127.5	162.4	129.5	104.5
1992	146.4	131.5	173.1	130.5	101.0
1993	148.7	136.7	180.9	130.4	93.2
1994	152.4	140.1	189.5	130.1	94.2
1995	157.6	146.0	198.0	134.2	90.8
1996	161.5	149.6	206.9	139.7	93.7
2nd qtr.1996	2.3	2.9	4.2	4.5	91.9
3rd qtr.1996	2.2	2.1	4.5	4.5	93.0
4th qtr.1996	2.6	2.0	4.6	3.4	99.6
1st qtr.1997	2.7	1.2	4.4	2.8	105.7
June 1996	2.1	2.8	4.3	4.5	93.4
July	2.2	2.2	4.4	3.9	93.2
August	2.1	2.1	4.5	5.2	92.2
September	2.1	2.2	4.7	4.6	93.7
October	2.7	2.3	4.0	3.6	96.1
November	2.7	2.1	4.7	4.0	100.2
December	2.5	1.9	5.1	2.8	102.9
January 1997	2.6	1.5	4.2	2.7	104.9
February	2.7	1.2	4.6	2.8	108.2
March	2.8	1.0	4.3	2.5	106.1
April	2.4	0.8	3.9	1.6	108.2
May	2.9	1.0			107.5

Statistics for Germany apply only to western Germany. Data supplied by Datastream and WEFA from national government and IMF sources, and by JP Morgan, New York. Consumer prices: not seasonally adjusted. Producer prices: not seasonally adjusted, US – finished goods, Japan – manufactured goods, Germany – industrial products, France – intermediate goods, Italy – total producer prices, UK – manufactured products. Earnings index: not seasonally adjusted, refers to earnings in manufacturing except France and Italy (wage rates in industry). Hourly except Japan (monthly) and UK (weekly). Unit labour costs: seasonally adjusted, measured in domestic currencies. Germany – mining and manufacturing, other countries – manufacturing industry. Real exchange rate: JP Morgan real effective exchange rate index versus 18 industrial country currencies, adjusted for change in relative wholesale price of domestic manufactures. A fall in the index indicates improved international competitiveness.

China signals privatisation drive

By Tony Walker in Beijing

China has signalled a stronger drive to privatise debt-burdened state-owned companies as part of plans to shrink the state sector.

Mr Ni Di, National Administration of State Property deputy director, said the sale of "non-core" state assets to lessen state burdens had top level support. "President Jiang Zemin said China must have a breakthrough in state ownership structure in areas not considered vital to state interests," he told a Beijing conference.

His remarks are aimed at preparing the ground for a session of the Communist party congress in the autumn which is expected to remove barriers to the sale of state enterprises.

Reformists appear to have overridden objections by party conservatives who have sought to slow the transition from a centrally planned "command economy" to a market-oriented system with "Chinese characteristics".

Argument about the sale of state assets to the private sector has been at the core of the debate. The leadership has been reluctant to tackle the sensitive privatisation issue, but now appears inclined to do so.

China has said it will permit the sale of shares held by institutions and hitherto excluded from the market. Trading in these shares would increase the possibility of takeover.

Mr Ni indicated China would broaden the areas of business activity open to the private sector to include retail, some infrastructure projects, processing industries and trading companies.

China does not use the word "privatisation", in order to avoid a backlash from conservatives, but an accelerated process of divestiture is under way.

Beijing's desire to increase the tempo of enterprise reform is being driven by the catastrophic performance of the state sector, which in 1996, for the first time since the 1949 revolution, fell into loss. The sector as a whole lost Yn53bn ([illegible]). Losses for industrial state enterprises reached Yn69bn, an increase of 45 per cent over 1995.

NEWS: INTERNATIONAL

Peace moves go on despite Gaza clashes

By Judy Dempsey in Jerusalem

Clashes between Palestinians and Israeli soldiers continued in the West Bank town of Hahron and the Gaza Strip yesterday, as Egypt pushed on with efforts to restart peace talks. These have been suspended since Israel started work on a new Jewish settlement at Har Homa in east Jerusalem.

Mr Saeb Erekat, Palestinian chief negotiator, held another round of talks in Cairo with Mr Osama el-Baz, the Egyptian envoy who has heen shuttling hetween Israal and the West Bank to try to find a formula to restart negotiations.

The discussions took place as Palestinians became increasingly frustrated with the deadlock and more particularly with the US House of Representatives' recent decision to back Jerusalem as undivided capital of Israel and to pledge $100m to move the US emhassy from Tel Aviv to Jerusalem by 1999. In reaction, Palestinians protested outside the US consulate in Jerusalem.

The unrest was sparked in Gaza hy Jewish settlers' attempts to put up a fence on land the Palestinians say was illegally taken.

Despite tbe unrest, an opinion poll puhlished by the Nablus Centre for Palestina Research and Studies yesterday showed that support by Palestinians for the peace process was increasing.

"This is the most surprising aspect of the poll," said Mr Khalil Shikaki, who conducted the research. It showed 68 per cent of those polled supported the peace process, against 60 per cent in April.

A majority of 56 per cent supported a Palestinian-Israeli return to the negotiating tahle, despite Israel's intransigence over settlements and the confiscation of residency permits for Palestinians living in east Jerusalem.

"In spite of all the ups and downs, Palestinians believe the peace process is the only option to obtain their goals, and violence is not a viahle alternative," Mr Shikaki said.

The strong support for the peace process contrasts sharply with that for the Palestinian presidency, plummeting from 79 per cent to 68 per cent. "The young and educated men believe the process of national reconstruction is not on the right track," Mr Shikaki added.

Recent allegations of corruption and abuse of public funds had prompted a majority, 52 per cent, to support a move by the Palestinian legislative council to hring down tha government by a no-confidence vote.

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A Palestinian youth is carried to an ambulance after being hit with a rubber bullet fired during clashes in Hebron Reuter

Mozambique brings in the British

Roger Matthews looks at Crown Agents' new role – running a customs service

Few countries have embraced privatisation with the same enthusiasm as Mozambique. By the end of this year one the world's poorest countries reckons it will have sold off, or restructured, close to 1,000 formerly state-owned enterprises, including banks, manufacturing industries, the national airline, plantations, and a host of small entities taken over when Portuguese rule ended in 1975.

But the government has not stopped there in the rush to bury the remnants of its Marxist past. Last month Mozambique scored a world first when responsibility for the customs service was handed over to a British company. For the next three years Crown Agents, which provides a range of services to governments and development agencies, will take full responsibility for the regulation of all aspects of Mozambique's cross-border trade.

The aim will be to hand back a fully functioning, efficient, honest service, and meanwhile make a significant contrihution to the state's ailing finances.

The challenge is daunting. "Customs officials here are either ignored, circumvented, or corrupt," says a western diplomat. "Given the absurdly low levels of pnblic sector pay, it is scarcely surprising that bribery is endemic, and runs from top to bottom."

Maputo's sales agent for BMW, the German car manufacturer, knows how pervasive the problem is. Last year be sold six new vehicles, hut the number coming in to be serviced at BMW garages rose by 250. The assumption is that most of the increase was due to stolen vehicles being smuggled across the border from South Africa.

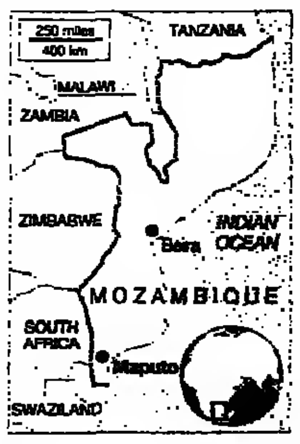
In Maputo's "booze alley", provocatively next door to the hotel where many Crown Agents ataff are living, Scotch whisky is snbstantially cheaper than in the UK, and far cheaper than in South Africa. "We like to monitor prices, hecause when they start rising we know we are making an impact," says Mr Chris Outhwaite, who heads the 60-strong Crown Agents presence.

One of his first actions was to let the "opposition" know Crown Agents had arrived hy setting up flexible anti-smnggling teams. Successes were quick and covered cigarettes, alcohol, electrical goods, meat, condensed milk, even yoghurt. The first appearance of a unit on the road from Swaziland provoked dismay on the border, and not a truck crossed for two days. "Word gets around very rapidly," says Mr Outhwaite. "If a unit is spotted anywhere on the road from South Africa there is an almost immediate backup of trucks on the other side."

But he admits these early seizures "are like standing under a shower and trying to catcb the individual drops". Crown Agents has yet to establish a presence in the port of Beira and in the north of the country.

"We have not yet completed our research," says Mr Outhwaite. "There are a whole range of problems to confront, such as the way the border meanders about, and the number of entry points, many of which do not even have telephones."

Meanwhile, Crown Agents staff are studying the opposition. "We are watching to see how things operate. For example, we know that the value of imported goods is often ridiculously unreported. The other day we stopped a new American sports car that entered the country with a declared value of $500. The guy really began to sweat when he realised he was dealing with a new set-up," says Mr Outhwaite. "But what we need to do is to find out where the tap can be shut off completely. There are a lot of people out there who are in for a nasty shock during the next few months."



Those include senior members of the customs service, many of whom are likely to lose their jobs. Part of the Crown Agents responsihility will be to find and train up to 300 new recruits. The Ministry of Finance has accepted that corruption can only be fully tackled once salaries are increased and is studying incentive schemes related to the value of seizures.

"People must know if they step out of line their well paid job will be at risk, and they will be unlikely to get another," says Mr Outhwaite. "Our aim must be to leave Mozambique witb something that is sustainahle."

The government bopes some results will be more immediate. It has set Crown Agents a revenue target of $125m (£76.6m) in its first year, which represents a nearly 50 per cent increase on last year. It will be hard to achieve. In the first quarter revenues actually fell, probably because of stockpiling in advance of Crown Agents' arrival, but also because the flow of goods has eased while the industry studies alternative routes and tactics.

"We know they are watching us," says Mr Outhwaite, who is on secondment from his joh as chief internal auditor of the UK customs service. "But we have not been sleeping. We have a lot of good ideas, as they will find out. I enjoy a challenge and this one is quite unique."

French troops move out

France began withdrawing its troops from Congo (Brazzaville) yesterday after evacuating more than 5,000 foreign nationals caught up in a bloody political and ethnic dispute in the former French colony, agencies report.

Despite occasional shooting, there was relative lull in fighting in the capital, Brazzaville, as peace talks got under way in neighbouring Gabon.

France built np a force of 1,200 troops in Brazzaville after fighting broke ont on June 5 between rival militia backing Congo President Pascal Lissouba and former military leader Denis Sassou Nguesso.

But the French are pressing ahead with withdrawal now in spite of an appeal by President Lissouba that they leave troops as a hnffer force between militiamen.

France yesterday called for presidential elections to go ahead on schedule on July 27.

Envoys of the rival leaders flew to Gabon on Sunday to start peace talks. The presidents of Chad, Mali, Gabon and Central African Republic will also attend the talks.

Business fears Mugabe threat to mining group

By Tony Hawkins in Harare

Threats by President Robert Mugabe to expropriate a foreign-owned mining company, the Zimbabwe Mining and Smelting Co (Zimasco), are undermining the country's drive to attract foreign investment, husinessmen in Harare claim.

Foreign shareholders own 100 per cent of the ferrochrome producer, which accounts for 7.5 per cent of Zimbabwe's exports.

Negotiations between the shareholders and the Zimbabwe government on localising 50 per cent of the shares ground to a halt last September, when the government demanded a 51 per cent stake plus management control of the mine.

Zimasco's foreign shareholders had agreed in principle to localise half the equity on the understanding they would keep control of management. Subsequently, a deal was negotiated with Nyika Holdings, a group of indigenous businessmen, led by a former army chief, General Solomon Majuru.

Under the terms of this agreement, announced last month, Nyika would huy 27 per cent of the equity in Zimasco while 15 per cent would be floated on the Zimbabwe Stock Exchange, with subscriptions reserved for local investors.

Tha balance of 8 per cent of the shares was to be issned to employees and used for management options.

This deal was rejected by Mr Mugabe, who threatened in a newspaper interview to nationalise Zimasco if the state was not offered 50 per cent of the shares.

But with Gen Majuru and his Nyika group refusing, so far, to withdraw, a crisis has developed which casts doubt over Mr Mugabe's recent public statemants supporting privatisation and foreign investment.

Political pressure may well force Gen Majuru, a backbench member of parliament in Mr Mugabe's ruling Zapu-PF party and husband of the posts and telecommunications minister, to cancel his hid. Tha government says it wants 50 per cent – and agreement with Zimasco's present owners on a management contract.

The president says the government will then make the shares availahle, on what basis is not known, to indigenous investors. If agreement can be reached on this package, no public share issue, as originally planned by Zimasco, will be made – certainly not at this stage.

Government officials insist a share issue would result in the shares being bought by whites and foreigners rather than black investors. At no time since the row became puhlic last month has tha president or the government given any indication of what legislation would be used to take over Zimasco.

Businessmen believe that there is a substantial element of bluff in the present posturing.

Bnt they also fear that even if, as seems probable, a compromise is reached, the element of uncertainty in the deal will further damage Zimhabwa's investment image. The fact that foreigners wishing to localise may be forced to sell to the government or to a particular group highlights the lack of transparency of the process.

Equally problematical, say local economists, is the fact that if the new shareholders have little capital, Zimasco's plans to modernise and expand, as well as developing its potential as a methane gas and platinum producer and serious player in the global ferrochrome market, will be at risk.

Prime minister suspends contacts with N Ireland republicans after policemen are shot

IRA killings shatter latest peace hopes

By John Kampfner in London and John Murray Brown in Dublin

Government hopes of reviving the search for peace in Northern Ireland were shattered last night after the Irish Republican Army shot dead two policemen.

Mr Tony Blair, the prime minister, in Amsterdam for the European Union summit, announced the suspension of contacts with Sinn Féin, the IRA's political wing. He instructed officials not to proceed with a third round of talks planned for today.

The officers were shot from close range while on foot patrol in the centre of Lurgan, Co Armagh.

The timing and location of the killings – just 10 miles from Drumcree, the flashpoint for last year's violent summer marching season – are certain to exacerbate community tensions and could now trigger a reaction from pro-British loyalists. With this year's Drumcree march by loyalists less than a month away, attention was focused on loyalist paramilitaries, whose ceasefire hangs in the balance.

The latest killing appeared designed to send a message to Mr Blair that the IRA will continue where it left off under the previous Conservative government.

In his first speech on Northern Ireland as prime minister, Mr Blair announced last month the resumption of civil service discussions with Sinn Féin. However, ministers have since been dismayed by an absence of positive signals from republican leaders.

After discussing the situation with Mr John Bruton, the outgoing Irish prime minister, Mr Blair said of the IRA and Sinn Féin: "Their cynicism and hypocrisy are sickening. Their actions defy normal understanding."

He added: "It is difficult to interpret this latest attack as anything but a signal that Sinn Féin and the IRA are not interested in peace and democracy and prefer violence. There is obviously no question of a further meeting with Sinn Féin in these circumstances."

In Dublin, Mr Bertie Ahern, the Fianna Fail leader who is expected to be declared Ireland's prime minister on June 26, said the killings "deliberately undermined the hopeful political efforts to restore peace and bring back inclusive and substantive negotiations". Mr Ahern was said to be reconsidering a proposed meeting with Sinn Féin.

Mr David Trimble, leader of the Ulster Unionist party – the largest pro-British party in Northern Ireland – who was prominent at Drumcree last year, appealed for calm among loyalists.

The murders, for which the IRA's North Armagh brigade admitted responsibility, raised fresh doubts about the control of Mr Gerry Adams, the Sinn Féin president, over hardline IRA elements.

This is the first time policemen have been killed by the IRA since its ceasefire in late 1994.

Raising $8bn and a howl of protest

Chancellor poised to ignore warnings on tax reform plan

The UK Treasury has proposed that next month's Budget should include the abolition of a 20 per cent tax credit on dividend payments to raise up to £5bn ($8.15bn) from pension funds and other tax-exempt institutions.

If Mr Gordon Brown, the chancellor of the exchequer, does abolish the tax credit, it will mark the failure of one of the most concerted campaigns ever directed at a new holder of the office.

The outcome will be studied closely by international investors and other tax authorities, which may wish to consider the implications for their own tax regimes.

Ever since the issue emerged in the run-up to the general election, the Labour party's Treasury team has been bombarded with dire warnings about the possible effect of cutting the credit, let alone abolishing it.

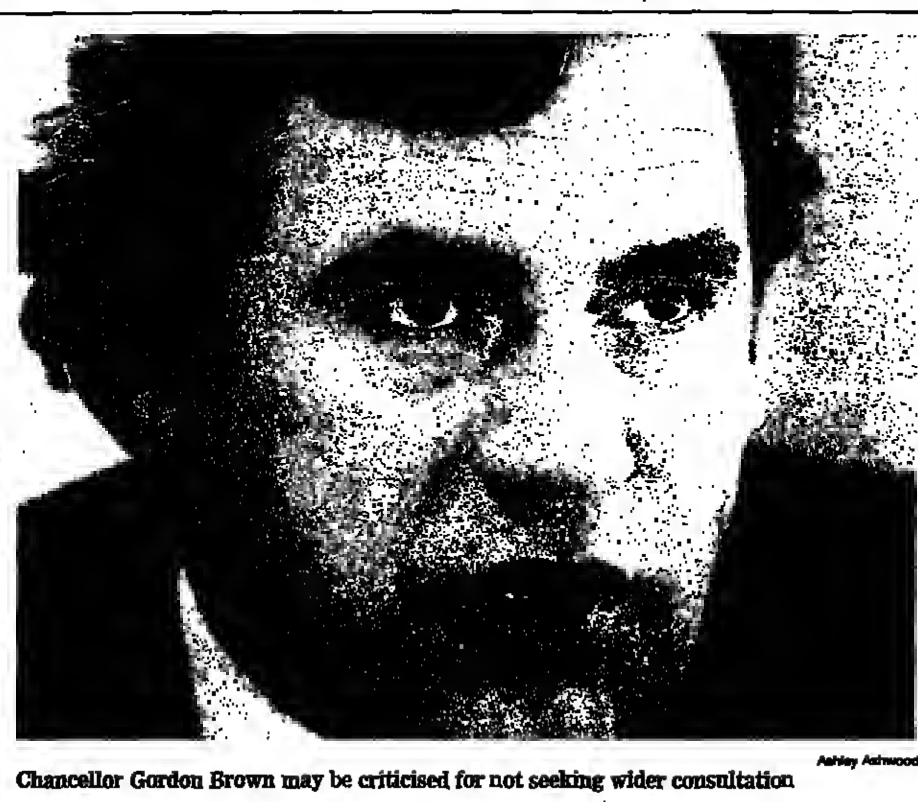
Labour appears to have decided that the warnings have been overdone and that reducing the benefits of paying dividends will liberate companies to invest more – redressing what it sees as one of the UK economy's big structural faults – although it would also raise the cost of capital.

Companies pay advance corporation tax when dividends are paid out. Shareholders get an equivalent tax credit, and tax-exempt shareholders, like pension funds, can claim repayment. About £5bn is reclaimed by tax-exempt UK investors.

Critics, alerted by reports that Labour was considering such reforms, said that what looked like a "victimless tax increase" would actually cut the total value of quoted companies by reducing expected dividend streams.

There would also be a secondary knock-on effect. Share prices would be hit again as some companies were forced to top up their pension funds as the value of equity holdings fell, in order to meet solvency requirements.

Warnings came from the Confederation of British Industry (the employers' organisation), the National Association of Pension Funds, the Association of British Insurers and others.



Ashley Ashwood

Chancellor Gordon Brown may be criticised for not seeking wider consultation

NatWest Securities said earlier this year that in theory, abolition of the tax credit would lead to a 9.1 per cent fall in the value of the FTSE 100 companies. In 1993, when the last government cut the ACT credit by 5 percentage points to 20 per cent, the value of the FTSE 100 fell 2.8 per cent in the following month.

But it is difficult to disentangle theoretical factors from the real ones that drive the UK market. There is a good chance the impact would be less than forecast because it may have already been discounted to some extent. Some warned that, because some employers would not be able to top up pension schemes to defend solvency – as laid out in so-called minimum funding requirements – they would be forced to opt for lower-cost provision, leading to reduced retirement benefits.

There were also warnings from charities. It is unclear what the Labour government will do in this area, but complete withdrawal of relief would cost at least £250m a year. The Wellcome Trust, a leading grant-making organisation, calculates that it would lose £1m a week if ACT relief were eliminated. If it becomes clear radical reform of ACT is to be included in the Budget, it is likely more companies will try to bring forward interim dividend payments to beat the changes. There is speculation, however, that the chancellor could make abolition retrospective.

If the chancellor does abolish ACT credits in one fell swoop, he will face criticism from industry for not seeking wider consultation. Companies will ask why he did not abolish ACT itself at the same time. Tax-exempt individuals, however, may get some transitional relief.

Jim Kelly

Tension mounts in Tory contest

By John Kampfner in London and Robert Peston in Amsterdam

Mr William Hague was last night set to take command of the Conservative leadership contest as Mr Kenneth Clarke's team accused the government of inflaming Tory tensions.

After five days of often underhand dealings, the three remaining contenders made a final pitch for the votes of the 164 Conservative MPs at the hustings in the House of Commons.

Aides of Mr John Redwood expressed confidence that, contrary to expectation, he would grab second place behind Mr Hague, eliminating Mr Clarke.

Both the other camps discounted the claim, forecasting a run-off on Thursday between Mr Clarke, a staunch pro-European, and Mr Hague, the young pretender of the centre right.

The Hague camp boasted its most prominent new convert when Mrs Gillian Shephard, the former education secretary who managed the campaign of Mr Peter Lilley in last week's first round, announced she was backing the former Welsh secretary. She had been considering supporting Mr Clarke.

The apparent inability of the former chancellor to win over more senior figures in the centre of the party has added to nervousness among his colleagues.

Their difficulties increased when an official accompanying Mr Tony Blair at the European Union summit in Amsterdam said the Labour party had been in talks with potential defectors among pro-European Tories.

"Conservative MPs are interested in talking to us about the way they could relate to a Labour government," the official said.

He suggested a number of Tory MPs had been "pretty horrified" when Mr Hague had come out against European monetary union last week.

The claim was denied by Tory MPs who have been prominent in criticising the party's Eurosceptic drift in recent years. "I had some informal contact before, but none since the election," said one pro-European. "This is mischievous kite-flying."

Mr David Curry, Mr Clarke's campaign manager, accused the prime minister's aides of trying to "destabilise" the Tory party.

A senior Labour MP said speculation about potential defections would backfire. "By doing this, we will kill off prospects of any of them joining us," said the MP.

Tax shelter scheme may lose its appeal

By Philip Coggan in London

The personal equity plan industry, which has channelled billions of pounds worth of savings into UK equities, seems likely to be revolutionised if the dividend tax credit is abolished.

Returns for Pep investors are free of income and capital gains tax. In practice, this means Pep investors, such as pension funds, can reclaim a tax credit on their dividends under the current system. An 8p per share dividend is grossed up to 10p for Pep investors.

If the credit were to be abolished without any offsetting tax changes, this would reduce the income of Pep holders by 20 per cent and severely dent the attractions of a Pep. Some industry outsiders admit that such a change would be likely to hit sales of Peps, although Pep profits would still be free from capital gains tax. However, since all investors have an annual exemption from CGT of £6,500 ($10,600), the tax is a problem for only a small number of investors.

The director of the National Association of Pension Funds yesterday called on the government to publish a consultative green paper before attempting any reform of pension taxation, Ross Tieman writes.

Ms Ann Robinson said the government would be making a grave mistake if it were to abolish the 20 per cent tax credit enjoyed by pension funds on dividend payments without a thorough study of the consequences, because of the complex knock-on effects on both pensioners and company investment.

She spoke after senior ministers and officials indicated that abolition of the credit was now the preferred option of the Treasury to raise up to £5bn ($8.15bn) in next month's Budget.

"It would be wise not to do this until you have had a green paper and a select committee," said Ms Robinson. "It could have not only a tremendous impact upon pensioners, but also upon companies and investors."

Some member funds have warned NAPF of serious consequences if the tax credit, which ensures pension contributions are untaxed until they are paid out, is abolished. Chiefs of the £12bn Post Office Pension Plans have told NAPF that their 180,000 members would have to contribute an additional one per cent of their salaries if the credit were removed. Emap, the publisher, has warned that the pension paid by its managed pension fund would be reduced.

According to Mr Alastair Ross Goobey, chief executive of Hermes Pensions Management, BT, the telecoms group, was obliged to inject more than £1bn into its pension scheme when the credit was reduced from 25 per cent four years ago.

Ms Robinson said that with many companies now enjoying robust profitability and strong balance sheets, axing the divided might have the "perverse" effect of encouraging companies to increase payouts to compensate for the tax take.

There are indications that the government has spotted this problem and that "transitional arrangements" may be made to protect individual investors from the tax change. In any case, it would seem an odd decision to introduce a measure that discouraged savings at a time when economists are worried about a consumer boom. But if the tax credit is abolished without offsetting measures, it may have some unintended consequences for the Pep industry.

"In the case of the unit trust Pep, it is likely to have complex effects, making corporate bond Peps more attractive and making Peps relatively more attractive to higher rate taxpayers than to lower rate payers," said Mr Philip Warland, director-general of the Association of Unit Trusts and Investment Funds.

Bond Peps pay a high level of income but offer only limited opportunities for capital growth. They are mainly attractive to elderly investors and made up a fifth of the Pep market last year.

But they would be unaffected by the change to the dividend tax regime and thus would look correspondingly more attractive, relative to equity-based Peps. Bond Peps could thus come to dominate the market.

The dividend tax credit would also mean that equity Peps might become almost the exclusive preserve of top-rate taxpayers. At present, higher rate taxpayers who hold shares outside a Pep must pay a further tax on their dividend income, representing the difference between the 20 per cent tax credit and the 40 per cent top rate. An 8p per share net dividend becomes worth 6p to the top-rate payer.

Even if the tax credit was abolished, there would still be an advantage for higher rate taxpayers in owning a Pep since they would avoid the "top-up" tax.

Basic rate taxpayers would have no income tax advantage from a Pep, and might even be worse off because of extra management charges. This might push basic rate investors into other tax shelters.

$5bn investment record for Scots

By James Buxton in Edinburgh

Inward investment into Scotland broke new records in the year to the end of March 1997. Some 86 projects with a total value of £3.1bn ($5.05bn) were agreed, creating or safeguarding nearly 14,300 jobs.

Both are the highest numbers since Locate in Scotland, the inward investment agency, was set up in 1981. In 1995-96 Scotland attracted £981m worth of projects, creating or safeguarding 10,136 jobs.

The figures were boosted by Hyundai, the South Korean company, which announced in October that it would invest £2.4bn in two wafer fabrication plants in Fife, creating 2,000 jobs.

Once again the electronics sector was the biggest area for new investment. Lite-On, a Taiwanese company, said last year it would create 1,000 jobs assembling computer monitors close to the cathode ray tube plant of Chung Hwa, another Taiwanese group. Jabil, a US printed circuit-board maker, promised 500 new jobs at its plant near Edinburgh.

Another strong sector for new investment was call centres. First Direct, the fast-growing telephone bank owned by Midland Bank, is establishing a call centre at Hamilton in Lanarkshire, initially employing 700 staff.

Mr Brian Wilson, the Scottish industry minister, who announced the figures achieved under his Conservative predecessors, said the performance showed the many advantages which Scotland enjoyed as a business location.

UK NEWS DIGEST

Lottery may 'sponsor' sport

Ministers will consider using money from the National Lottery to phase out the tail end of sports sponsorship by tobacco companies where sports can demonstrate that they would be genuinely harmed by the ban.

Ministers are determined to ensure that leading sports sponsored by tobacco companies, such as cricket, rugby league and golf, find other sponsors to replace them, and are confident they can do so. But they acknowledge some sports with limited mainstream television exposure, or none at all, such as ice hockey, angling and greyhound racing, may face greater difficulties.

Mr Frank Dobson, the health secretary, when announcing last month that sports sponsorship would be included in the tobacco advertising ban, promised "time and help" to affected sports.

Government sources are reluctant to confirm that help could include lottery money for fear that sports will delay or abandon the search for alternatives if they believe lottery cash might help them. All forms of sports sponsorship totalled more than £300m ($489m) last year, according to the Department of National Heritage, although that includes the £30m spent by the tobacco industry internationally on Formula 1 motor racing.

A government consultative document on ending tobacco advertising and sponsorship is due next month at about the same time as one which will add health to the "good causes" on which money from the lottery could be spent. *Nicholas Timmins, London*

■ LONDON UNDERGROUND

Warning over privatisation plans

London's cash-strapped underground system should not be privatised until the government is absolutely sure it will get a better deal than in the public sector, Mr Peter Ford, London Transport chairman, warned yesterday.

Mr Ford, who took over at London Transport in 1994 after a career in the private sector, queried whether private management could improve on the regime which had turned the Tube from operating losses to profits over the past four years. He also attacked the inflexibility of governments once they embarked on a course of action and the objectivity of City advisers once they became involved. His remarks coincided with the revelation that Labour had begun confidental talks about Tube privatisation with senior executives at SBC Warburg, the merchant bank which advised on last year's Railtrack flotation, a month before the election. Mr John Prescott, the deputy prime minister, was clearly embarrassed at his decision to appoint financial consultants to advise on possible privatisation. Labour in opposition lambasted the Conservative government's use of financial advisers. *Charles Batchelor and George Parker, London*

■ FIELD SPORTS

Blow for MP in anti-hunt move

A bill to ban fox hunting was yesterday dealt a serious blow after the prime minister's office signalled that the measure would receive minimal government support.

Mr Michael Foster, the Labour MP who topped the annual private members' ballot, confirmed he would be introducing a bill outlawing hunting with hounds, a move likely to provoke a furious political row. But even before the bill was announced, Downing Street had indicated it would not receive government assistance.

Government officials are understood to be concerned not to antagonise the House of Lords – where there is strong opposition to a ban – fearing that peers could cause difficulties for flagship legislation such as Scottish and Welsh devolution.

Opponents of blood sports say there is an overwhelming majority in the House of Commons in favour of a hunting ban. But the British Field Sports Society has estimated that about 14,000 jobs across Britain depended directly on hunting. *Liam Halligan, London*

■ AGRICULTURE

$6m award for scrapie research

£3.8m ($6.2m) for a new research project into eradicating scrapie, the disease of sheep thought to be the cause of BSE [bovine spongiform encephalopathy, or mad cow disease] in cattle, and in turn of CJD [Creuzfeldt-Jakob Disease] in humans, has been awarded by the Biotechnology and Biological Sciences Research Council.

The money will go to the Institute for Animal Health, which will investigate how scrapie develops and is transmitted, and how genetic factors make some sheep more susceptible than others.

Scrapie is thought to have existed in UK flocks for over 200 years but had not been a cause for concern until it jumped the species barrier into cattle. Scientists believe this happened as a result of sheep remains being used as protein in cattle feed.

In future, sheep suffering from scrapie will be compulsorily slaughtered, and farmers will receive compensation. The move is likely to increase the reporting of scrapie cases, which currently total between 400 and 500 a year. *Maggie Urry, London*

■ TRAFFIC CONGESTION

Pre-booked parking for shoppers

One of Britain's largest conurbations, Newcastle upon Tyne in north-east England, is planning to make shoppers pre-book parking spaces to tackle the growing problem of urban traffic congestion. Car use in Newcastle city centre is estimated to be rising by about 2 per cent a year.

Businesses would also have to state an acceptable need to gain a permit to bring vehicles into some of the most congested city centre areas. The city council aims to control vehicle movements on the basis of need rather than through road pricing, which is used in cities such as Singapore, where vehicle users pay for permits to enter the centre.

Other UK cities, including Bristol in the west of England and Edinburgh in Scotland, are investigating road pricing. *Chris Tighe, Newcastle upon Tyne*

TECHNOLOGY

Victoria Griffith on how researchers are adding medicinal value to the things we eat

Healthy taste for souped-up foods

In The Jetsons, a US TV cartoon series, futuristic characters simply pressed a button on the wall when they got hungry – out would pop small pills that when swallowed produced all the tastes and nutrients of a three-course dinner. The pills were no doubt a spoof on the newly popular vitamin industry.

If the series were made today, the Jetsons would probably pass on the pills. The pendulum has swung back and today's researchers are asking the question: rather than serve food in the form of medicine, why not serve medicine in the form of food?

In the US and Europe, food and biotechnology companies are betting on products with claims to disease prevention. Known as "nutraceuticals" or "functional foods", they go beyond claims of low fat and cholesterol to promise specific health benefits, such as reducing blood sugar levels or improving the immune system.

"Nutraceutical [promoters] basically see food as a delivery mechanism for disease-fighting compounds," says Nancy Borgeson, a senior consultant specialising in functional foods for the consultancy SRI.

The first examples of this new line of products are already moving into the supermarkets. In Europe, Nestlé is marketing LC1 yoghurt, fortified with a special ingredient to rid the body of harmful bacteria such as salmonella. Florida-based Tropicana has put out a new line of nutrient-enhanced juices for health-conscious consumers.

In January, Campbell Soup began trial sales in Ohio of a new brand called Intelligent Quisine, retailing for about $10 (£6.20) for three home-delivered meals a day. The company is promising consumers lower cholesterol, blood pressure and blood sugar if they stick with the programme for 10 weeks or more.

More nutraceuticals are in the pipeline. Kellogg, the US breakfast cereal maker, will soon open a $75m (£46m) research centre in Michigan dedicated to developing functional foods. It has also applied to the US Food and Drug Administration for approval to advertise some of its cereal products as a prevention for colon cancer.

Nabisco, another US food company, says it is working on a new line of such products and may make some announcements over the next few months. Agronomy groups Zeneca and Monsanto are also developing nutritionally pumped-up produce.

New knowledge about nutrition is pushing nutraceuticals forward. In addition to basic vitamins and minerals, scientists have identified new classes of nutrients such as phytochemicals that are considered essential in the battle against cancer and other diseases. As a result, vitamin formulations are becoming bigger and more specialised.

"At some point, the supplement gets so big that it makes sense to put it in food, rather than pill form," says Nancy Childs, a professor of food marketing at St Joseph's University in Philadelphia.

The amount of technological engineering involved in nutraceuticals will probably vary widely. Functional foods could include anything from a snack

> **'At some point, the supplement gets so big that it makes sense to put it in food, rather than pill form'**

bar with extra bran to genetically altered fruits and vegetables. Some of the most interesting work is coming out of bioscience companies such as Monsanto and Zeneca.

In Germany, Monsanto has just launched special eggs with DHA, a nutrient known to reduce the risk of heart disease and mainly found in fish. Fish obtain the nutrient from certain types of algae. By lacing chicken feed with the same algae, researchers for the project say they have managed to produce eggs with a similar nutritional value.

Zeneca and Monsanto are both working on tomatoes with extra lycopene, a type of beta-carotene identified as a cancer-fighting nutrient. The challenge is to come up with a souped-up crop that produces the same yields as other tomatoes. "The extra lycopene part is easy," says a researcher. "The problem is to make it economically feasible."

At the government-sponsored National Food Biotechnology Centre in the Irish Republic, researchers are searching for a private-sector partner to market a "health milk" they are developing. Scientists would lace the milk with special lactic acid bacteria in the hope that the bugs would colonise in the human digestive tract. The lactic acid would then battle harmful bacteria.

Functional foods have potential drawbacks. For one thing, the regulatory environment to support health claims is uncertain.

At present, the US Food and Drug Administration specifies that foods may make general health claims such as "heart healthy". If manufacturers wish to pitch their products for more specific diseases, however, clinical trials are probably necessary.

That may not constitute a barrier for some food groups. Financing research to support health claims is a growing trend in the industry. In the early 1990s, the cranberry company Ocean Spray paid for clinical trials to show that cranberry juice can help prevent urinary tract infections, then successfully used the supporting results to market its product. Campbell Soup also financed a series of clinical trials to back up its health pitch for the Intelligent Quisine brand.

Even so, companies are cautious about making health claims that would unrealistically raise consumers' hopes. "We have to be very careful about making such claims, especially with something as serious as cancer and heart disease," says Nigel Poole, regulatory affairs manager at Zeneca. "It would be difficult to prove such claims, and could get us in trouble legally as well as tarnish our image with the public."

Even if they turn out well, research and clinical trials are expensive, and as pharmaceutical companies know only too well, regulatory approval is not always forthcoming. moreover, many nutritional innovations are extremely difficult to patent, so imitators could easily wipe out any advantage. Companies should be fairly certain of a substantial pay-off before sinking too much money into such ventures.

In spite of the challenges, functional foods look set to be a big new area for manufacturers. While nutraceuticals may not provide any greater health benefits than can be obtained by eating balanced meals, companies are betting consumers will pay a heavy premium to get the extra convenience and taste. That bet may pay off.

"It's clearly not enough to just tell people to eat more fruit and vegetables," says Borgeson of SRI. "People want to eat healthy, but only if they can do it with the convenience foods and tastes they're used to. Because of that, nutraceuticals will probably be a very appealing consumer item."

Race to block influenza enzyme

Two treatments specifically for flu are vying to get to the market, says **Michael Peel**

The race is on between two small biotech companies and their much larger drug industry partners to bring the first specific flu treatment to the market.

Last week Biota Holdings of Australia said it could have its drug, known as Zanamivir, on sale as early as 1999.

Zanamivir is being developed by Glaxo Wellcome, the UK pharmaceutical group. Glaxo last month began large-scale (Phase III) clinical trials, following previous tests which showed that the remedy is active against all forms of influenza.

Zanamivir faces competition from GS 4104, a drug discovered by Gilead Sciences of the US. Roche of Switzerland last year acquired worldwide marketing rights for GS 4104, which last month began Phase II clinical testing in the US.

But Biota had a headstart of several years in developing its drug, and Zanamivir has already been tested on people.

Against that, the timetable for its development was put back a year to allow Phase II trials to be held over two winters rather than one.

Glaxo used the extra time to monitor the drug's effects on people who are at most risk from influenza because they have diseases of the heart, lungs or immune system. Flu kills tens of thousands of people in the northern hemisphere each year.

Hugh Niall, chief executive of Biota, says no trial participants suffered any side-effects from taking Zanamivir. "That is truly remarkable," he says.

"It is not straightforward [to make] but we have a very effective manufacturing process that is scaleable to large amounts. The drug seems to be extremely stable, which is very important when you are dealing with seasonal ailments."

Both drugs inhibit the enzyme neuraminidase, which cleaves the bond between the flu virus and the airway surface to which it is attached, leaving the virus free to reproduce. The drugs stop the enzyme working by blocking its active site.

> **Flu kills tens of thousands of people in the northern hemisphere each year**

While the two drugs pursue tha same target, they take different routes to their quarry. Zanamivir is inhaled, while GS 4104 is taken orally.

Conventional wisdom says patients prefer to swallow rather than sniff medication. But Niall says it makes more sense to inhale flu drugs. "The virus grows in the surface of the airways and infects the cells that line the nose, throat and lungs," he says.

"With inhalation, it is possible to get the drug to the site of infection within a second or two. That seems to us logical with a disease where the virus is multiplying rapidly."

He points out that much higher concentrations can be built up at the active site if the drug is inhaled, rather than absorbed in the gut and diffused through the blood. "Very little of the drug gets into the body," he says.

"And it is relatively easily excreted in the urine. You reduce – I wouldn't say eliminate – the chances that you will get some sort of side-effect."

Biota has used its knowledge of the structure of neuraminidase to develop a flu diagnostic in tandem with Zanamivir.

Researchers have added a marker side-chain to the drug at a position where it does not interfere with the binding of the molecule to the enzyme's active site.

Niall says treatment with a chemical reagent reveals within 15 minutes the presence of the drug-virus complex. Existing flu tests have to be sent to a laboratory for analysis.

Niall believes the development of the diagnostic will help Zanamivir receive approval from regulators who may be worried that people will resort to the new drug at the first sign of any flu-like symptoms. "The early stages of flu can be confused with bacterial and respiratory infections," he says.

"Obviously, if we have a drug like this on the market and everyone is taking it when they think they have flu, there could be an astronomical use of it. That is no use to anyone."

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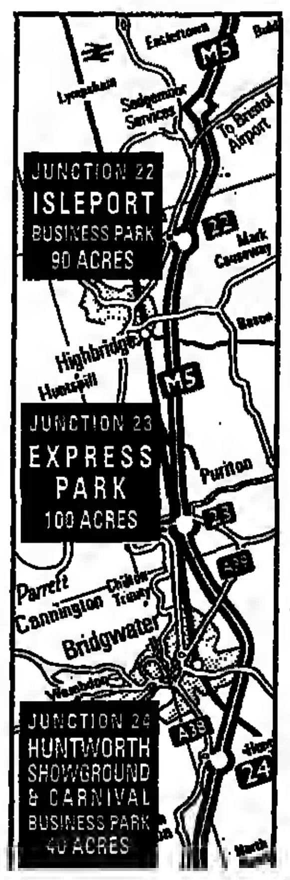

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BUSINESS AND THE LAW

Product liability case rejected

EUROPEAN COURT

The case brought against the UK by the European Commission for failing to implement correctly the European product liability directive has been rejected by the European Court of Justice.

The directive makes manufacturers strictly liable for damage caused by defects in their products, but allows them to escape liability where they can prove that the state of scientific and technical knowledge at the time when the products were put into circulation was not such as to enable the existence of the defect to be discovered.

The Commission argued that in implementing the directive through the 1987 Consumer Protection Act, the UK had failed to implement that exception properly.

The Act provided that a manufacturer would not be liable if it could show the state of scientific and technical knowledge at the relevant time was not such that a producer of products of the same description as the product in question might have been expected to have discovered the defect if it had existed in his products while they were under his control.

The Commission argued this did not correctly implement the relevant provision in the directive as it had broadened the defence and converted the strict liability imposed by the directive into mere liability for negligence.

It said the test under the directive was objective as it referred to a state of knowledge and not to the capacity of the producer, or another producer of similar goods, to discover the defect. By using such criteria, the UK law applied a subjective test based on the behaviour of a reasonable producer.

The Commission said it was an easier test to fulfil than to show that the state of technical and scientific knowledge was such that no one would have been able to discover the defect.

Scrutinising the directive, the European Court observed first, that its provision was not specifically directed at the practices and safety standards in use in the industrial sector in which the producer was operating, but unreservedly at the state of scientific and technical knowledge, including the most advanced level of such knowledge, at the time when the product in question was put into circulation.

Second, the Court noted that the provision was not concerned with the actual state of the manufacturer's knowledge or with what, subjectively, it could have been.

Rather, it was concerned with the objective state of scientific and technical knowledge of which the manufacturer was presumed to have been informed. The Court said it was implicit that the relevant knowledge must have been accessible at the time when the product was put into circulation.

Thus, the Court ruled that for a producer to have a defence based on the directive, it had to prove that the objective state of scientific and technical knowledge, including the most advanced level of such knowledge, was not such as to have enabled the existence of the defect to have been discovered at the time when the product was put into circulation.

However, if a producer's knowledge was successfully pleaded against him to negate any reliance on the defence, the knowledge must have been accessible at the time the product was put into circulation.

The Court said that last point could give rise to difficulties of interpretation which might have to be resolved by preliminary references to Luxembourg.

Thus, the Court ruled that the provision in the 1987 Act was wholly consistent with the provision in the directive and furthermore that there was nothing put forward by the Commission to show that the UK courts would not interpret the domestic law in the light of the wording and the purpose of the directive. It had therefore failed to make its case.

C-300/95: Commission v United Kingdom, ECJ 5CH, May 29 1997.

BRICK COURT CHAMBERS, BRUSSELS

Hotter competition in global law race

Firms are developing international expertise by hiring staff qualified abroad, writes Robert Rice

The US law firm invasion of London continues apace. Last week Cadwalader Wickersham & Taft, Wall Street's oldest law firm, announced it is to open a London office in September. The office will practise both English and US law and will be staffed mainly by British lawyers.

By itself the news that another New York law firm is targeting London is unremarkable. But there were also signs last week of the beginning of a sea change in international legal practice that in five years' time will have produced a markedly different legal services industry from today's.

Until comparatively recently, US law firms had by and large chosen to ignore overseas markets in favour of building strength and depth at home. Of those firms that did venture internationally, most stuck to practising US law. Some followed a deliberate policy of hiring local lawyers and practising local law, but they were the exception.

The globalisation of commerce and the increasing importance of US capital markets has forced a change of strategy, however. Significant numbers of US firms with offices in London have begun to add English law capacity by hiring English qualified specialists.

A few of the top UK law firms have reciprocated. Freshfields, Allen & Overy, Linklaters & Paines and Clifford Chance have all hired US lawyers at partner level. After several false starts, the race to establish truly global law firms has begun in earnest.

Leading figures from two US international law firms, Mr Stephen Volk, senior partner of New York's Shearman & Sterling, and Mr Walter Mondale, former US vice-president and partner of Minneapolis firm Dorsey & Whitney, were in London last week preaching change.

Although the firms are different in many respects – Shearman is one of New York's elite, Dorsey is the leading commercial law firm between the Great Lakes and the Pacific Northwest – their message was much the same: in shaping a strategy to meet the demands of a global economy it is no longer sufficient for law firms to rely on exporting legal expertise. To compete, firms must develop dual capability in the jurisdictions in which they practise.

Dorsey has, like others, built up its international practice by servicing the needs of its domestic clients in international markets. It opened in London, for example, because its client, First Bank System of Minnesota (recently merged with Oregon-based, US Bancorp), opened here after Big Bang.

Equally, acting for Carlson Companies, the US group which owns Radisson Hotels, has taken Dorsey all over the globe.

Recently, however, it has become clear to the firm that to meet the changing needs of international clients it has to add non-US legal expertise. In its New York office 80 per cent of the lawyers are now international, albeit that many are dual qualified. In Brussels, the firm has added German, Belgian and Irish lawyers. Its Hong Kong office is headed by a US/China dual-qualified lawyer from Beijing.

In London the firm is beginning to add English lawyers and will hire a Portuguese lawyer over from New York shortly to handle an increasing volume of work from Spanish and Portuguese banks.

To Mr Peter Kohl, head of the London office, adding English law capacity is essential to maintain a strong capital markets practice. "Six or seven years ago financings were either European or US. Now every financing has an element of both," he says.

Mr Mondale, who rejoined the firm last year after three years as US ambassador to Japan, will concentrate on building up Dorsey's Asia practice. He is convinced of the need to become a truly global practice to meet the changing demands of clients, but has no illusions about the size of the task.

"It's very expensive to go global. You have to establish offices in expensive places, and you have to be a certain size to make it work. It takes patience and money and it won't come overnight," he says.

Shearman has been an international firm for some time. Its first overseas base was opened in Paris 36 years ago and last week saw the 25th birthday of the London office.

It has also followed a policy of hiring local lawyers since taking on French lawyers in Paris in the early 1970s. Its German offices established in 1991 are staffed principally by German lawyers, and London recently completed the picture by poaching the projects finance team led by English solicitors Mr Kenneth MacRitchie and Mr Nick Buckworth from US rivals Milbank Tweed.

However Mr Volk says it is still "in the relatively early stages of becoming a global law firm".

For Mr Volk the key to establishing a successful global practice is to forge a truly multinational law firm and so it has begun to establish a management structure which cedes unprecedented power to non-US lawyers.

The Paris office is run by a Frenchman. Germany is run by Mr Georg Thoma, who is also overall head of European operations. London is headed by Canadian Ms Pamela Gibson, and 50 of its 100 lawyers in Europe are admitted to practise in either France, Germany or the UK.

This strategy sets it apart from from its immediate US competitors, Sullivan & Cromwell, Cravath Swaine & Moore, Davis Polk & Wardwell, and Simpson Thacher & Bartlett, which generally take the view that you only need to be expert in US law and that you can ally with other nationals on an ad hoc basis to do deals.

Mr Volk says that is a perfectly sane short- to medium-term strategy because mergers and acquisitions are booming and the US capital markets are booming. But, he says, when you look at the longer term you see that well over half the public global equity is now issued by non-US issuers, between 11 and 12 per cent is issued by emerging-market issuers, and that part will grow rapidly.

"Eventually, as those issuers become public, a thriving M&A market will develop. So we think the right answer is to take a broader view," he says.

The strategy appears to be paying dividends. Over the last 10 years the percentage of Shearman's revenues generated by non-US offices, or done in the US for non-US corporations, has risen from 30 to 40 per cent.

In the last four years the percentage of total billings from clients outside North America has risen from 28 to 42 per cent and the revenues of the European offices have more than doubled in the last five years.

In Germany its appointment as lead counsel to the Treuhandanstalt, the privatisation office, led to its involvement in the privatisation of the former East German chemical, mining and energy sectors. That in turn led to its involvement in several of the largest German deals of recent years, such as the Krupp Hoesch, Thyssen carbon steel merger.

In France it has been involved in seven of the 12 significant privatisations. In the UK it worked on most of the main privatisations of the past decade, from British Telecom to Railtrack.

In 1996 Shearman was ranked top legal adviser in M&A worldwide based on the value of deals by Securities Data Corp. It was involved in five of the 25 largest deals of 1996 including the $21bn BT/MCI merger.

In global equities Shearman was rated top issuers' counsel by American Lawyer magazine in 1996. It also acted for the global underwriters in a $4bn offering by the Irish GPA Group, saving the company from bankruptcy. And it was involved in two of the three $1bn-plus international arbitrations of 1996.

To meet the increasing demands of its global clients Shearman will have to grow substantially. But Mr Volk is determined not to allow the firm to become so big that it loses the partnership ethos and culture.

In time he expects half the firm's lawyers will be based outside New York. The UK office has 40 lawyers and will double. He also expects considerable growth in France, Germany and Asia. Recruiting the best legal talent to fuel that growth is his biggest challenge and that is where the battle for the global legal services market will be won and lost.

Merger is not the solution, he says. A merger with a UK law firm would, for example, give Shearman more English lawyers than it needs, upsetting the balance of its multinational approach.

Nevertheless, Mr Volk is ready to up the pace of global expansion and it is a measure of the support his strategy enjoys within the firm that he has just been re-elected to a second term as senior partner.

INTERNATIONAL PEOPLE

Rohaut moves up at Novartis

Alain Rohaut, who has spent the last 20 years managing staff development in French and US multinationals, should know all about climbing the corporate ladder.

But even he may be surprised with the speed with which he has entered Novartis's top executive suite. No sooner had he joined the newly merged Novartis as head of human resources in its pharmaceutical division than he is given the same job on a group wide basis and a temporary seat on Novartis's seven man executive committee.

Rohaut, who joined Novartis from General Electric's medical systems division, is the most senior of a clutch of new appointments at Novartis which was created at the end of December from the merger of Sandoz and Ciba, two of the top three Swiss pharmaceutical companies.

His appointment, coinciding with news of the elimination of another two layers of management on the pharmaceutical side, should help defuse concerns that Novartis's highly incentivised top management team is more interested in short-term financial cost-cutting than the long-term health of an organisation employing 90,000 staff in 100 countries.

Rohaut will continue to head the newly combined human resources and communications functions of the pharmaceuticals side as well as temporarily assuming responsibility for human resources at the corporate level.

The importance of the post is reflected by the fact that Rohaut will sit on the Novartis executive committee unlike Cynthia Hogan, head of strategic planning, Daniel Wagnière, head of group technology, and Walter von Wartburg, head of communications.

Meanwhile, Otto Jaggy has joined from SBC Warburg as head of corporate management development, and Reto Brändli, currently head of controlling in the pharmaceutical sector, assumes responsibility for mergers and acquisitions at the corporate level.

William Hall, Zurich

Fisher promotes the Rock's potential

Anthony Fisher, a partner in KPMG, the consultancy, and an expert in offshore banking, has been appointed Gibraltar's first finance centre development director.

The two-year appointment marks the Gibraltar government's commitment to develop its presence on the international financial services market. Fisher will report directly to Peter Montegriffo, Gibraltar's minister for trade and his main remit will be the marketing and development of Gibraltar as a financial services centre. He will also identify any necessary legislative or regulatory changes that are required to foster the growth of financial services.

Fisher has had wide experience of the offshore market and has regularly acted as a specialist adviser both to the governments of international finance centres and to companies on the use of the offshore financial services.

He recently acted for the government of Malta in the launch of Malta as a financial services centre and was responsibla for the team that designed and drafted the new Maltese tax legislation and regulation.

Fisher said: "Gibraltar has been putting in place financial services regulation which matches that of the UK. Its culture is similar to the UK, it has good telecommunications, a good legislative framework and is now ready, under a new government, to make a new beginning, not least in the context of the development of the European Union.

"One of my first tasks will be to meet with local businesses and establish a programme for financial services in Gibraltar which is not only realistic and achievable hut which will put Gibraltar in full control of its future and firmly on the offshore map."

He said that as the only British-linked international financial centre with European Union status Gibraltar could become the offshore extension of the City of London.

Lisa Wood

Nash to head T&N in US

David Nash, a director of T&N, the international automotive components and engineering group, is to become president of Glacier Vandervell, T&N's North American bearings subsidiary.

Nash joined T&N's sealing products group in 1990 as managing director of Coopers Payen, the UK-based manufacturer of outomotive gaskets.

He became director, European and Asian operations when the sealing products gronp was restructured in 1996.

Nash started his career as a laboratory technician before taking a degree in material sciences. He received the prestigious honorary title of "Eur Ing" from the International Federation of National Engineering Associations in 1989 and is a member of the Institute of Materials, a member of the Institute of Quality Assurance and is a chartered engineer.

Nash, who will be based near Detroit, has held senior positions with TI Group plc and TRW, the US automotive components group. He succeeds Jim Davis who is leaving T&N.

The bearings division of T&N has an annual turnover of about £333m ($542m) and the North American operation is a significant contributor to this.

ON THE MOVE

■ Gerbrand Hop, 52, has been appointed chairman of the management body of the EUROPEAN INVESTMENT FUND, a body set up in 1994 with the aim of supporting employment. Its biggest shareholder is the European Investment Bank, with the European Union holding 30 per cent. Hop, who became chairman, investment banking, NatWest Markets in 1995, will take up his appointment in September. He succeeds Thomas Oursin

■ Midas Correctora, an independent stock brokers based in Lisbon, has recruited Cidália Morgado as head of international sales. She previously handled investor relations for Portugal Telecom.

■ MACDERMID, the US-based speciality chemical company, has promoted Arthur LoVetere, to executive vice-president. He joined the company in 1989 from the General Electric Corporate Audit staff as an international financial analyst.

■ LEHMAN BROTHERS has appointed Atul Bajpai, currently head of European mortgage and asset backed sales, as co-head of European principal finance and securitisation along with Wilson Lee. Atul joined Lehman Brothers in 1990 to work in mortgage sales in the Atlanta office.

■ Ralph Russo has been appointed president of ALLIEDSIGNAL SAFETY RESTRAINT SYSTEMS, a global supplier of air bag and seat belts systems and a unit of AlliedSignal Automotive. He succeeds Thomas Cresante. Russo has been vice-president of operations for AlliedSignal Turbocharging Systems in Torrance, since September 1996.

■ Yannis Vasatis has been appointed general manager and head of credit derivatives at TOKAI BANK EUROPE. He joined Lehman Brothers in 1991 and until recently was executive director, asset swaps and credit derivatives. In addition Rupert Harrison becomes general manager and head of primary markets, with overall responsibility for Tokai Bank Europe's origination and new issues activities. Harrison joins from Citibank.

■ NAVA FINANCES AND SECURITIES has appointed Kittisak Benjarit as the company's executive president.

■ CINCINNATI BELL has appointed Richard Ellenberger, 44, president and chief executive of its Cincinnati Bell Telephone unit. Ellenberger, who had been chief executive at XLConnect Solutions, replaces David Gergacz, who resigned from the company in October.

■ CEGETEL, the communications subsidiary of Generale des Eaux, held in partnership with British Telecom, Mannesman and SBC, has appointed Thierry Gattegno, 42, as managing director of TDS (Telecom Development Services) from June 2. TDS is a joint subsidiary of Cegetel and SNCF. Gattegno was managing director of IPC from December 1987 to June 1991, subsequently moving to Wundermann France and Direct Assurance (Axa group). Andre Meyer, 50, has been appointed managing director of Cegetel's enterprises division, effective June 16. He joins from Hewlett-Packard.

■ Jean-Francois Fau, 42, has been appointed director of the wireless communications section within TEXAS INSTRUMENTS Europe's Network Division. He has worked for over 15 years for Texas Instruments' semiconductor Group.

■ Gary Samuel has resignes as president and chief operating officer of CANADIAN REAL ESTATE INVESTMENT TRUST. Canadian Reit owns a diversified real estate portfolio across Canada.

■ Andrew Reeves has been appointed to the new position of general manager, Australia for COCA COLA AMATIL. He is currently managing director of The Smith's Snack Food, a subsidiary of United Biscuits and was formerly sales and marketing director of C-C Amatil's snack foods division before it was sold to Smith's in 1993.

Sverige.

■ LEHMAN BROTHERS has appointed Robert Feidelson to the newly created post of global equity finance chief. Feidelson, who previously was based in London directing Lehman's European futures activities, will work out of New York.

■ UNITED PARCEL SERVICE of America has appointed Randy Pulito as its European president. Pulito, previously vice-president, Europe operations, replaces Ed Reitman who will manage a new technology project at UPS's head office in Atlanta.

■ Wayne Grigull, formerly a managing director of foreign exchange at Merrill Lynch in New York, has been appointed a managing director of foreign exchange at Deutsche Morgan Grenfell in New York. Grigull will head Deutsche Morgan Grenfell's global foreign exchange coverage for hedge funds.

■ Peter Rubinstein has joined PAINEWEBBER as a senior vice-president in its mortgage strategy group. He was a senior vice-president in charge of non-agency residential mortgage credit research at Donaldson, Luftkin and Jenrette.

■ ROGERS COMMUNICATION has appointed Jos Wintermans as chief executive and president of unit Rogers Cablesystems, Canada's largest cable network operator. Wintermans was Canadian Tire's senior vice-president of diversified businesses.

■ Li Changlin has resigned as chairman of CNPC (Hong Kong) and has been replaced by newly-appointed director Zhang Ruchun. Lin Jingau was also appointed a director.

■ HSBC JAMES CAPEL STOCKHOLM has expanded its Swedish office after recruiting five people from Swedbank. They are Tomas Kullman, head of research, Johan Morner, head of sales, Jonas Nyberg, head of trading, Robert Lannge, sales, and John Hook who is a trader.

■ Jack Chadsey has resigned from SUNGLASS HUT INTERNATIONAL. James Hauslein, the chairman, will be acting president and chief executive.

■ ERNST & YOUNG, announced that James Keene, a 15-year veteran of tax reengineering processes, will join the practice as a director. He joins from CLR Fast Tax, a tax software company, where he was director of tax reengineering services.

International appointments

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Dutch courage pays off

Richard Fairman visits the Holland Festival

It is remarkable to look back at the great flowering of the arts immediately after the end of the war. There are celcbrations marking that balf century everywhere at the moment. In August tha Edinburgh Festival will be enjoying its 50th birthday, while this month has seen the opening of the 50th Holland Fastival, founded in 1948 and its junior by just one year.

There will be plenty of opportunity to reminisce over the latter's achievements: a book entitled *A Dutch miracle, 50 years of the Holland Festival* is due for publication shortly, and a commemorative box of CDs featuring excerpts from historic performances gives a fair idea of bow prestigious a festival it has been. But that has not been enough to silence criticism from some quarters.

The problem is the same as is being faced by other festivals in major cities, such as London. These days Amsterdam bas such a wealth of cultural activity throughout the year that it has become difficult for the Holland Festival to maintain its original purpose and profile. The hunger for the arts that drove the festival in the austerity of the post-war decade has given way to a period of plenty. Last year there were suggestions in political circles that the festival should be discontinued and its relatively modest grant (FL1m from the city, FL3m in state snbsidy) shared out between other arts institutions. But that idea seems to have gone away for the time being and this month the festival was back in full force.

The major event at the beginning is always a new production at tha Muziektheater and this year's *Jenufa* made a pretty strong case for carrying the tradition on. There is nothing like a success to give everybody heart. The Netherlands Opera already knew Richard Jones, Britain's most loved and hated opera producer, from his two previous prodnctions in Amsterdam, *Mazeppa* and *Der fliegende Holländer* but as the only good reviews for the latter were apparently in the UK dailies, it was brave of the company to invite him back again.

There were boos at the end of this *Jenufa*, hut by Jones's standards the production was straight down the lina, no comic cut-out jokery, no pntting his thumb to his nosc and insulting a mastarplece. (What would Amsterdam's booers have said if they had been at the Covent Garden *Ring?)* Janáček's drama sbows us wbat happens when individual freedom runs headlong into the immovable wall of a repressiva society and Jones's production caught the moment of impact with maximum intensity, heightened by some stylised, highly-coloured sets designed by Antony McDonald.

As with thc Wagner, the evening bung npon how one reacted to the central performance by the Britisb soprano Kathryn Harries. Maybe her highly-strung Kostelnička bere was less original a portrayal than the fascinating Senta that she and Jones put together for *Der fliegende Holländer*, bnt she was still the make-or-break performer of the evening. The Dutch audience responded with four bravos to each boo: 80 per cent had watched a riveting piece of acting, which charted the interior collapse of a guilt-racked woman witb mesmerising intensity, while the 20 per cent had been listening to a voice that has become distressingly frayed around the middle.

There were no problems with the singing of Gwynne Geyer's gleaming Jenufa, which was unfailingly well-projected, even if a touch more light and shade might have been welcome.

Thc two tenors – David Kuebler and Peter Straka – showed no strain in tackling some of Janáček's most testing high vocal writing, but there could have been more contrast between the weak Steva and the unstabie Laca (it is bard to forget Jon Vickers, so violent, or Philip Langridge, so hyper-intense, as the latter).

Robert Poulton as Stárek sang strongly; Pauline Tinsley gave grandmotber Burya real character and even managed to look happy about modelling her quaint, folksy, tea-cosy hat.

Sadly, it was not thc Royal Concertgebonw that was to be found in the pit for this year's festival production (the Muziektheater runs on a rota of visiting orchestras) bnt the Radio Pbilharmonic Orebestra played capably enough under Edo De Waart and there was no obvious weakness in the musical performance. But it was still the stark impact of what was happening on stage – the powerful last image showed the villagers in silhouette, shaking their fists in disapproval as Jenufa, the poor single mother who lost her baby, and her new man go off to a new lifc – that gave this prodnction its emotional punch.

Ironically, on the night before, anybody visiting Amsterdam could have seen the last performance of an equally good new production of *Eugene Onegin* that had nothing to do with the Holland Festival at all. There seems to be a penchant at the Netherlands Opera for productions that have big, striking central images and not a lot else.

This *Onegin*, produced hy Johannes Scbaaf and designed by Peter Pabst, in all other respects a fine and fairly traditional staging, featured a stylish forest of silver tree trunks, an emblematic icon, and a starring role for a grand chandelier of candles which magically lit themselves.

On the stage, all the light and heat of the performance were radlating from the soprano Elena Prokina, a few years ago a Tatyana of promise, now one subtle and penetrating beyond compare. This was a magnetic portrayal, which managed to be yonthful and simple as Tchaikovsky wanted, but also emotionally mature at the same time. Unfortunately, Gino Quilico ran out of voice just at the point where an Onegin can start to make an impression; on a better day his keen baritone could be just the job. Marcus Haddock's sligbtly gritty, hnt well-schooled tenor was well suited to the role of Lensky; and Anatoly Kotcberga, the giant (and giant-voiced) bass wbo has been making his name as Boris Godunov, briefly stole his scene as Prince Gremin.

With the blood pressure a few degrees bigher in the pit, it might have been an enthralling evening. As it was, Hartmut Haenchen, tbe solid and sensible conductor, and the Nctherlands Philharmonic Orchestra provided decent support to a handsome production and a sometimes inspiring cast.

Theatre/Ian Shuttleworth

Driven by the characters

Following the opening of Terrence McNally's *Master Class* in the West End, the same author's *Lips Together, Teeth Apart* is given its British premiere by Mark Clements at Derby.

McNally takes a quartet of early-middle-aged yuppies, puts them in a holiday chalet on the New York resort of Fire Island on a Fourth of July weekend, equips them witb individual and collective attributes and background, and basically lets the characters get on with it.

Sam, married to Sally, is the brother of Chloe, married to John. John and Sally had a brief fling, which both their spouses know about but which is never discussed openly; nor are Sally's pregnancy, proneness to miscarriage and resultant angst. John has recently been diagnosed with cancer. The house, on the gay part of the island, has been bequeathed to Sally by her late brother, and all four display varying degrees of low-leval Aids paranoia. This is effectively the entire plot, in a plsy driven by character rather than events.

John Guerrasio and Nicola Glick get most of the laughs as amiable joker Sam and compulsive chatterhox Chloe, ill-matched respectively with Barbara Barnes' high-strung Sally and Robert Jezek's tightly-buttoned John. Periodically, the action (and even, in Andrew Elsegood's sound design, the background noise) freezes for a soliloquy from one character or another before resuming without a beat; these insights advance the play more markedly than the external boliday mundanities.

Perbaps the strangest characteristic of the piece is that the author has included a pre-emptive defence of the play and its like in his contribution to the programme, addressing British criticism of American plays for being "sentimental" wben they are simply concerned with feelings. True, *Lips Together, Teeth Apart* could fall prey to such accusations, but sentimentality is not the issue. What McNally bas done is to bring his characters together and explore their emotional landscapes and interactions without bothering with any real external events; they may as well be in a closed room.

This approach can generate sympatby and understanding, even empathy, in an audience – and given a skilled writer like McNally and Clements' sensitive direction, it does – but one may still experience a desire for Things to Happen. We are asked to care about these four people, simply because they are people, with people's problems; and we do care – but such caring, when past events are merely alluded to and no present events intervene, has its limits.

Derby Playhouse until June 21 (01332-363275).

Bergen Festival/David Murray

Northern stars

Bergen Festival draws performers from far and wide. Last year the Netherlands Dance Theatre and our own Royal Ballet were guests; this year, the Berlin Komische Oper in *Tales of Hoffman*, a Taiwanesa dance troupe and the entire Royal Scottish National Orchestra – which had the honour of giving the closing concert, with its statutory Grieg concerto played most elegantly and thoughtfully by Jean-Yves Thibaudet.

With its new conductor Alexander Lazarev, it repaid the compliment by including contemporary Norwegian pieces by Cecilie Ore and John Persen (well rehearsed and effective), as well as steaming through a suite from Glazunov's *Raymonda* ballet. As for the resideut Bergeu Philharmonic, conducted by Martyn Brabbins, they sounded foggy in Debussy's *La Mer*, much happier in Arne Nordheim's new violin concerto (written for and superbly played by Arve Tellefsen) and quite dashing in Skryabin's *Prometheus*, backed by a tremendous light-show that would have delighted the composer.

There is usually some current Norwegian star at the centre of things. This year it was the brilliant young pianist Leif Ove Andsnes, who restricted himself to one solo recital but also played duos with Joanna MacGregor, *Lieder* with Matthias Görne, sonatas with the cellist Heinrich Schiff and Dvořák's piano quintet with the Lindsay Quartet, all with his usual inimitable brio.

The festival also gave generous space to the composer James MacMillan. The contemporary BIT 20 Ensemble gave a conspectus of short pieces from his whole career so far, and he conducted the RSNO in his Prom hit *The Confession of Isobel Gowdie* and his new clarinet concerto, in which even John Cushing's sensational playing could not persuade me that this is a laboured, repellently noisy piece. The suspicion grows that MacMillan's music consists chiefly of clever illustrations of his programme-notes.

Mnch more exciting was the CIKADA quartet (three of them called Hannisdal), who gave a luminously musical account of the late Bruno Maderna's quartet in the venerable Hakonshallen. They too played Ore and Persen, wbose ingenious textures and sound-blocks sounded far subtler and more expressive here than in their orchestral studies. I bope fervently that the remarkable CIKADA team will visit London soon.

A Renaissance flowering in Prague

Rudolf II of Habsburg, Holy Roman Emperor, King of Bohemia and Hungary, was Europe's most senior ruler, and the quintessential late Renaissance prince. His image as a mad recluse, a great patron of the sciences, the arts and an occultist has grown since his death in 1612. The 19th century *fin-de-siècle* fed on his links with the astrologer John Dee and with Nostradamus. A century later, it is this Rudolf that still fascinates. A new exhibition at Prague Castle and the Wallenstein Stables gives a far fuller picture of this extraordinary man.

Rudolf eschewed Vienna and made Prague his capital from the 1580s until his abdication in 1611, a year before his death. Under him, Prague became the most important intellectual and artistic capital in late-Renaissance Europe.

This is the first time the Czechs have mounted an exhibition on this scale and it is a remarkable feat. Twenty four countries and many Czech institutions have worked together at an unprecedented level and the organisers have also put together a formidable list of sponsors including British Airways.

After Rudolf's death, political insecurity and the Thirty Years' War, ensured that his collections were dispersed and Prague became a backwater. Now the objects have returned to some of the very buildings in which they were originally admired. The Ball Court, in the royal gardens, is the only building from Rudolf's day that is more or less intact. The architectural drawings on show of unusual Habsburg palaces, such as the Hvezda, conjure the setting for so much of the music, literature, art and the ceremonial business of the court.

A walk through the gardens ends in the Summer Pavilion, built for Anne Jagellon by Ferdinand I, Prague's first Renaissance building. Here is the essence of Rudolf's polymathic interests; science, astronomy, astrology, philosophy and art. John Dee rubs shoulders with the astronomers Tycho Brahe and Kepler and with the painter Archimboldo. Here are three wonderful Archimboldos, including Rudolf as "Virtumnus" of 1591. Its painterly qualities are equal to the wit of the image. John Dee's "show stone", wax tablet and writings are here for aficionados. Yet more revealing are the portraits of Kepler and Brabe; Brahe's rich brocade hat, doublet and silk stockings indicate his elevated status.

The Venetian Ambassador of the time described Rudolf's palace as being like a warehouse. The Imperial picture gallery illustrates the variety of Rudolf's enthusiasms. There is the triumphalism of public art in the great Habsburg portraits and engravings which portray the emperor as Caesar. But more moving is the private art. There are romantic scenes of Prague by van Vianen and colour sketches by Savery which reflected Rudolf's love of the Alps.

The display of the Kunstkammer in the Royal Stables is outstanding. It is difficult to determine exactly which objects were held in the emperor's hand but from the quality of the *pietra dura* panels of Castrucci to the sensuality of pieces by the Milanese gem cutter, Miseroni (who laid the foundations for Bohemian glass production), these satisfied imperial tastes. Items range from rare Japanese lacquer to a woven cushion from the Congo of 1600 as well as objects from the natural world made unnatural under skilful hands from all over Europe. Only the skeleton of the dodo is left untouched.

Such wealth, judgment and curiosity of so great a patron was bound to felt in all sections of society and in the Wallenstein Stables, there is a more modest but fascinating exhibition of city life. Each area of Prague is depicted; its nobility, burgers and guilds. There is real charm in the small albums of the grand tourist of the 1590s. The portraits by Karel Skreta, one of Bohemia's greatest painters in the 1640s, are quietly powerful. There is a small section on the Jewish ghetto but, considering the intellectual contribution of the Jewish community to Prague at this time, it is disappointing. It is also a pity that more was not made of the taste of Rudolf's courtiers and their country seats, which still exist. Overall, however, against the backdrop of the city, the achievement of the Rudolphine Court and its subjects take on a new force. Prague has not been so beautiful for many decades and the exhibition reflects this pride.

Lucy Abel Smith

The exhibitions at Prague Castle and the Wallenstein Stables run until September 7.

Occultist and great patron of the arts and sciences: Rudolf II as 'Vertumnus', by Archimboldo

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

CONCERT
Concertgebouw Tel: 31-20-6718345
● Nederlands Philharmonisch Orkest: with conductor Hartmut Haenchen, soprano Alexandra Coku, alto Hebe Dijkstra and the Toonkunstkoor Amsterdam in works by Beethoven; Jun 20, 21, 22, 23

■ BERLIN

CONCERT
Konzerthaus Berlin Tel: 49-30-203090
● Thomas Böttcher, Regina Kunert, Birgit Schmieder, Michael Vogt and Katharine Hanstedt: the violinist, pianist, oboist, tuba-player and harpist perform works by Krenek, Richter and Beethoven; Jun 20

■ CHICAGO

EXHIBITION
Museum of Contemporary Art Tel: 1-312-280-2660
● Envisioning the Contemporary: Selections from the Permanent Collection: exhibition featuring 100 works tracing major historical developments in art from 1945 to the present day. Included in the display are works by Balthus, Kline, Magritte, Sherman and Warhol; from Jun 20 to May 31

■ DUBLIN

CONCERT
National Concert Hall Tel: 353-1-6711888
● Royal Irish Academy of Music: with conductor Jimmy Vaughan, soprano Laura Delany and tenor Robin Trischler in works by Brahms, Schumann and Strauss; Jun 18

■ LONDON

EXHIBITION
Hayward Gallery Tel: 44-171-9604242
● Tatsuo Miyajima Big Time: installation work by the Japanese artist, plunging much of the Hayward into darkness, illuminated only by small red, green and blue lights flashing on the walls and gliding across the floors. A specially installed bridge crosses over the work, to allow viewers to become immersed in the electronic lights; from Jun 18 to Aug 17
Mayor Gallery Tel: 44-171-7343558
● Arman: display of work by the New York-based French sculptor whose neo-realist work has been associated with the Pop Artists of his adopted city. Arman's work however, concentrates on the real object, as opposed to a recreation of it; from Jun 18 to Aug 29
Serpentine Gallery Tel: 44-171-4026075
● Anya Gallaccio: installation on the Gallery's lawn by the sculptor who uses raw materials, including blocks of ice and banks of flower rot, in the creation of her work; to Jun 22
FESTIVAL
City of London Festival Tel: 44-171-3770540
● City of London Festival: festival organised by the City Arts Trust featuring musical and theatrical performances in buildings, churches, halls and open spaces of the historic Square Mile. This year's musical highlights include Les Arts Florissants conducted by William Christie at St.Paul's Cathedral, soprano Barbara Bonney at the Draper's Hall and a performance of Stravinsky's *The Rake's Progress* by the London Symphony Orchestra with conductor John Elliot Gardiner at the Barbican. The festival opens with a bell-ringing ceremony at the St. Mary-Le-Bow church; from Jun 19 to Jul 10

■ MADRID

OPERA
Teatro de la Zarzuela Tel: 34-1-5245400
● Don Giovanni: by Mozart. Conducted by Jan Latham-Koenig, performed by the Teatro de la Zarzuela. Soloists include Hakan Hagegard, Iano Tamar, Pamela Coburn and Giovanni Furlanetto. Part of the 10th Festival Mozart de Madrid; Jun 20

■ MUNICH

EXHIBITION
Neue Pinakothek Tel: 49-89-23805-195
● Claude-Joseph Vernet. 1714-1789: exhibition of work by the French painter who worked for King Louis XV as a sea and landscape painter. Shown alongside the pieces by Vernet are a number of works by his contemporaries, including Lorrain, Boucher and Dughet; to Jul 8

■ NEW YORK

AUCTION
Sothebys Tel: 1-212-606-7000
● Animation Art: sale featuring 400 pieces of artwork spanning 60 years of animation history. Highlights include more than 200 lots from Walt Disney Studio's classic films, including *Snow White and the Seven Dwarfs, Pinocchio, Sleeping Beauty, Bambi* and *Peter Pan*; Jun 21
EXHIBITION
Cooper-Hewitt National Design Museum Tel: 1-212-860-6868
● Under the Sun : An Outdoor Exhibition of Light: special outdoor exhibition examining the power of the sun as an inspiration in design, featuring a number of solar powered products as well as sundials, solar collectors and reflectors; from Jun 21 to Oct 12
The Metropolitan Museum of Art Tel: 1-212-879-5500
● The Human Figure in Transition: American Sculpture from the Museum's Collection 1900-1945: selection of smaller-scale sculptures illustrating both classical and radical tendencies in representations of the human body in the first half of this century. Featured artists include Paul Manship, Gaston Lachaise, Elie Nadelman, Malvina Hoffman and Chaim Gross; to Sep 15

■ PARIS

DANCE
Théâtre du Châtelet Tel: 33-1 42 33 00 00
● The Loss of Small Detail: choreographed by William Forsythe to taped music, performed by the Ballett Frankfurt; from Jun 20 to Jun 25
EXHIBITION
Centre Georges Pompidou Tel: 33-1-44 78 12 33
● La gourmandise: exhibition featuring works from the collection of the Musée national d'art and the Centre de création industrielle. Featured artists include Lichenstein, Doisneau, Brassaï and Warhol; to Jun 30
OPERA
L'Opéra de Paris Bastille Tel: 33-1 44 73 13 99
● Madama Butterfly: by Puccini. Conducted by Silvia Varviso; Jun 20

■ ROME

OPERA
Teatro dell' Opera di Roma Tel: 39-6-481601
● Il Barbiere di Siviglia: by Rossini. Conducted by Hugo da Ana. Soloists include Bruno Pratico, Roberto Frontali and Ildebrando d'Arcangelo; Jun 18, 20

■ SAN FRANCISCO

CONCERT
Louise M. Davies Symphony Hall Tel: 1-415-864-6000
● San Francisco Symphony Orchestra: with conductor Michael Tilson Thomas, soprano Teresa Stratas, violinist Hudson Shad and the San Francisco Symphony Chorus in works by Bach, Berg and Weill; Jun 18

■ VIENNA

CONCERT
Konzerthaus Tel: 43-1-7121211
● Philip Dukes: performance by the viola-player accompanied by the pianist Sophia Rahman. The programme includes works by Flackton, Britten, Schumann, Webber and Bloch; Jun 20

■ ZURICH

OPERA
Opernhaus Zürich Tel: 41-1-268 6666
● Roberto Devereux: by Donizetti. Conducted by Marcello Viotti; Jun 19

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10.00 *European Money Wheel*
18.00 *Financial Times Business Tonight*

Martin Wolf

Little call for gimmicks

The forthcoming Budget by Britain's new Labour government has the chance to match monetary innovations with radical reform of the fiscal system

The UK Budget to be presented by Mr Gordon Brown on July 2 is both an opportunity and a danger. He could show himself to be the reforming chancellor of the exchequer of an innovative new Labour government. He could also succumb to gimmickry. Which element predominates will show whether the radical chancellor of the first few weeks will prove to be the rule, or the exception.

Alas, a degree of gimmickry is inevitable since Labour went out of its way to limit its fiscal freedom of manoeuvre when in opposition. Its most restrictive commitment is to abide by the spending plans of Mr Kenneth Clarke, the former chancellor, for 1997-98 and 1998-99. Almost as important, however, are decisions not to raise the basic or top rates of income tax, not to extend the upper limit of national insurance contributions, not to extend value added tax to food, children's clothing, books, newspapers and fares and to lower VAT on domestic energy from 8 to 5 per cent.

If a government decides to rule out sensible policies, it must fall back on silly ones. Public spending may have to be kept down. But the government still wants investment in hospitals, schools and public transport. The solution is creative accounting: off-budget financing via the private finance initiative indicates the possibilities.

Similarly, if increases in visible taxes are ruled out, the government is forced to consider invisible alternatives. The most likely is fiddling with advance corporation tax, which has the great advantage of being virtually incomprehensible. Yet this would increase the tax burden on companies and destabilise the fiscal treatment of pensions.

Gimmicks will not be a minor part of the Budget. Its centrepiece is to be a "windfall tax" – a noxious piece of legislation justified only by the unpopularity of the companies that will pay it. The tax will not even fall on those who made the "windfalls" – the initial owners of the shares, most of whom have taken their profits.

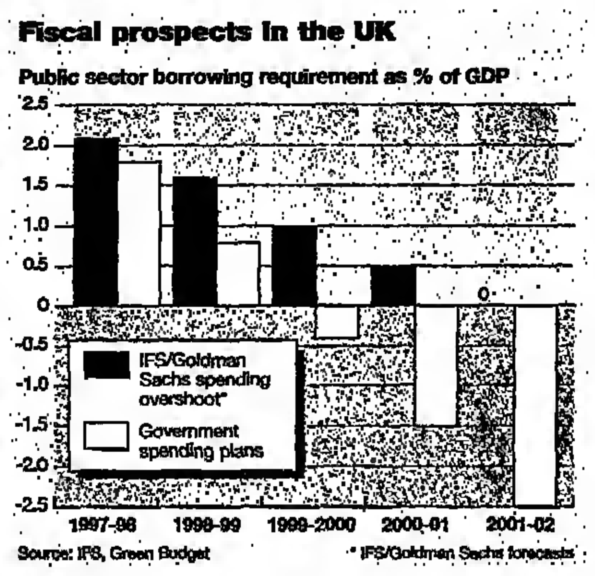
Alas, this tax is not the end of new Labour nonsense. It also wishes to introduce a new 10p starting rate of tax, which has at least three drawbacks: it offers smaller benefits to the poorer sections of society than an increase in allowances; it complicates a system already unnecessarily confused by the decisions of Mr Norman Lamont and Mr Clarke to offer a 20p tax band alongside the old basic rate; and it makes the taxation of savings more administratively complex.

With such bad ideas buzzing in Mr Brown's brain, only the most extreme optimist can hope for much of enduring value. But dreaming is free. The chancellor has surprised almost everyone in his decision to give the Bank of England operational control over interest rates. Perhaps he will be equally radical on taxation and spending.

At this early stage in the government's history, a radical approach should consist of setting out long-term goals and initiating public discussion in high-priority areas for reform.

Fiscal policy involves three decisions: where and how to spend; where and how to raise money; and what balance to strike between the two. On spending, Mr Brown has already initiated a fundamental review. On revenue, what is needed is coherent discussion of options for reform. Now would be the time to consider making expenditure, rather than income, the basis for tax. More limited reform could focus on the interaction between taxes and benefits, environmental taxation, taxes on savings and corporate taxation.

Where Mr Brown can make immediate progress is in setting out an overall plan for spending, revenue and the deficit. He could start by adopting something similar to New Zealand's fiscal responsibility act, which obliges the government to lay out its objectives for the fiscal balance, the broad structure of spending, public debt and public sector net worth.



Articulation of such a plan would force the government to reveal its fiscal hand. In its Green Budget, the Institute for Fiscal Studies took an optimistic view on fiscal sustainability. On present plans, argues the IFS, even the golden rule – that borrowing does not exceed investment – would be met next year.

Yet there are at least four reasons why substantial discretionary fiscal tightening might be needed.

First, the Treasury forecasts show the ratio of general government spending to gross domestic product falling from 40.5 per cent this year to 37.4 per cent in 2001-02 (see table). But spending has not been as low as 37 per cent since the mid-1960s. Over the past 20 years, it has averaged 42.25 per cent of GDP. The difference between the forecast spending ratio for 2001-02 and the average of the past two decades is some £40bn, in current prices.

To deliver such low spending, either the government will have to secure a big increase in private provision or the quality of services and the generosity of welfare provision must deteriorate. In practice, public spending is unlikely to remain at its present share of GDP, let alone fall.

Second, if the objective is to stabilise the debt over the cycle, it is arbitrary to take the ratio reached when the economy is close to full capacity as the base. This is to treat the large deficits in previous years as bygones. This makes sense only if there will be offsetting fiscal surpluses in years ahead or today's debt ratio is safe. The former is speculative; the latter doubtful.

True, the UK's debt ratio is low by European standards. But this says more about the rest of Europe than about the UK. The more relevant question is how comfortably the UK could cope with any large adverse economic shock. After an increase in the ratio of net public debt to GDP from 19 per cent in 1990 to 44 per cent last year, a further substantial increase would be uncomfortable. The aim of a safety-first fiscal policy should, therefore, be to *lower* the debt ratio sharply, if possible to where it was at the beginning of the decade.

Third, in a low-saving economy, such as Britain's, the government should contribute to national savings, not consume them, as now. In 1996, savings by general government were minus 3.6 per cent of GDP, while the UK's gross national savings were a mere 13.9 per cent of GDP, the lowest of any Organisation for Economic Co-operation and Development member.

Finally, the current tightening of monetary policy, alongside the substantial appreciation of sterling, gives an undesirable mix of fiscal and monetary policy. Very large swings in real exchange rates have adverse effects on industries open to international competition. At present, therefore, the immediate economic situation and long-term fiscal soundness both demand fiscal tightening.

What then might an optimist hope for? The chancellor would forget the gimmicks and accompany his review of spending with a comparable examination of taxes. He would present long-term plans for the spending, revenue, deficits and debt. Finally, he would put in hand a tightening of fiscal policy that depends neither on implausible assumptions about public spending nor on optimistic assumptions about the course of the economy. Abolition of mortgage interest relief would be a start.

Mr Brown has an opportunity to achieve a better budgetary framework and a more robust fiscal position. He should seize it.

LETTERS TO THE EDITOR

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Opportunity to remedy several fatal flaws in stability pact

From Mr Peter Urken.

Sir, in spite of the potentially disastrous consequences of the French Socialists' desire to reconsider the terms of the stability pact (as Lionel Barber outlines in "Stability pact proves an unstable area", June 10), the discussions which this position will instigate in Europe may actually enhance the sustainability of the euro. As currently constituted, the stability pact has several fatal flaws and this week may be the last chance to remedy them.

Unfortunately, the French are focusing their efforts on the creation of a political counterweight to the European central bank, but their quest to make EU institutions much more amenable to the public would be better served by making several changes to the agreement:

First, the massive monetary fines envisioned as penalties for Emu participants with excessive deficits seems to be the most inappropriate penalty possible for fiscal transgressions. Instead, political penalties such as revoking certain voting rights in the EU Council or in the ECB should be explored.

Second, strict limits on structural – rather than overall – deficits should be targeted in order to allow for the cyclical nature of public finances. Third, the pact currently requires a two-thirds vote to ratify any penalty. But Emu participants with unstable public finances may form an informal agreement to refrain from voting for any penalties against each other to protect themselves from the immense damage that the fines would pose.

If, as seems increasingly likely, Portugal, Spain and even Italy are admitted, such an agreement would make ratification of stability pact penalties nearly impossible.

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US

Policies should be put to market test

From Mr Richard Lewney.

Sir, John Kay, in his article "Produced to price" (June 13), is right to criticise "manufacturing fetishism". He might have added that efficiently produced, non-traded services make an important contribution to competitiveness by keeping down the costs of: consumer goods and services (and hence wage pressures), government activities (and hence the burden of taxation), and business service inputs to (among others) manufacturing industries.

However, local and national policymakers are still right to think about what kind of economic activities they would like to see prosper. Some are preferable (in terms of the kinds of jobs created, their environmental impact, or their potential for increasing general economic performance through spin-off benefits) to others.

And the extent to which a region or country proves to be a favourable location for these activities can be a measure of the effectiveness of public policy (for example, in education or transport).

Industrial and regional policy cannot be based on picking winners, but we should not be afraid to judge whether different policies would produce a better "market" outcome.

Richard Lewney,
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The fools will always shun a sage

From Mr Ray Taylor.

Sir, Lucy Kellaway wonders "why it is the males who are at the top", despite the fact that men are less predisposed towards "social cognition" than women ("Why bad management is all in the genes", June 16).

The answer to this question is simple. In the cut and thrust world of corporate dominance, it is the go-ahead powerbroker who is best placed to grasp the bull by the horns and push the corporation forward to face the challenges of the future, etc, etc.

Put it another way. Three fools wish to recruit a fourth. They have a simple choice between a fool and a sage. Who do they choose? Bad management will not abolish itself, any more than macho directors will appoint women on the basis of anything other than the ability to power-dress and denounce wishy-washy, touchy-feely, management theories.

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An inkling of change

There are signs of democratic progress in the Arab world, argues David Gardner

From Croatia to Papua New Guinea the world has been treated to a bumper crop of elections in recent months. The democratic habit seems to sweep all before it. Not, however, in the Arab world, which continues to be ruled in the main by ageing despots and absolute monarchs.

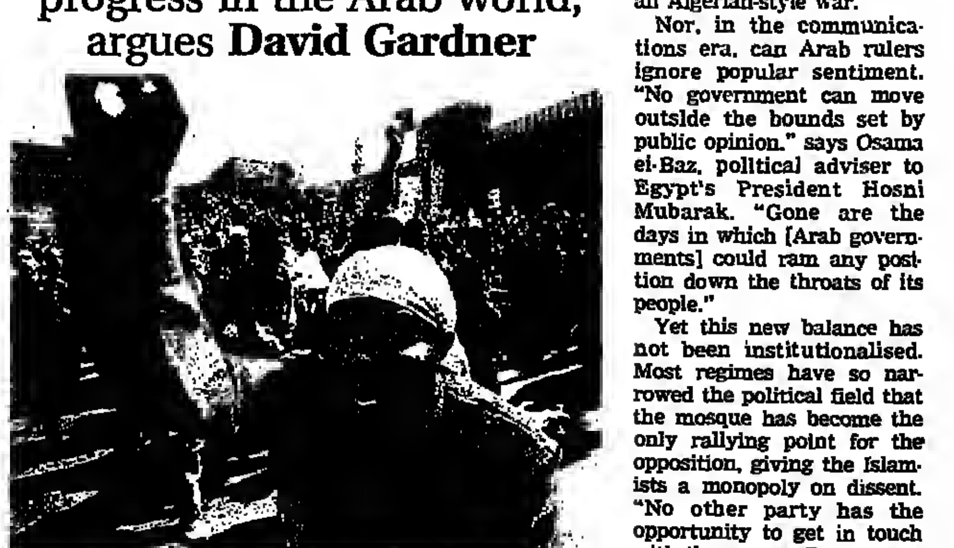
Nor are these rulers much npbraided for their shortcomings by governments in the west, more concerned about the spread of Islamic revivalism – real or imagined – and the security of oil supplies than with the niceties of democratic governance. Western analysis of Middle Eastern regimes – whether of allies or adversaries – mostly concerns their chances of stability and continuity. In the post-communist era no other part of the world, not even China, is examined with such little regard for the political rights of its citizens.

In the Gulf, the absolute monarchy in Sandi Arabia will countenance no more than an appointed consultative council (*Majlis al-Shoura*) and makes clear to neighbouring emirates that it prefers they do the same. In Bahrain, the Sunni Moslem ruling family has resisted e sporadically violent 30-month campaign by the Shia Moslem majority to win a share of power through the recall of tha National Assembly, dissolved in 1975.

In both Iraq and Syria, military-backed minority regimes emerged from the ideological ruins of the pan-Arab Ba'ath party which, in any case, never saw elections as the route to power. Pro-western Egypt'a pluralist society is traduced by its authoritarian politics, in which the armed forces are the final arbiter.

North African governments are still traumatised by the brief opening up of Algerian politics. This brought the fundamentalist Islamic Salvation Front (FIS) to the brink of power until the army in 1992 cancelled a deciding round of elections, unleashing a savage civil conflict.

There are, nevertheless, little spots of democratic light twinkling across the region. After the 1990-91 Gulf crisis Kuwait's ruling family bowed to popular pressure and recalled the twice-dissolved National Assembly, though it has resisted ceding real power to it. King Hussein of Jordan in 1989 restored a controlled form of democracy, but has since



Rallying point: the Islamists have a monopoly on dissent

tightened voting rules to ensure manageabla results and curbed an increasingly critical press.

Yemen has passable elections and Morocco, whicb last week held local elections, is cantiously exploring gradual liberalisation ahead of voting for parliament in September. Algeria itself has just held a new round of parliamentary elections, though these excluded the FIS and showed some evidenca of manipulation.

Jordan and Kuwait, by contrast, do allow Islamists into politics, partly because the king and the emir can both fall back on a bedrock of bedouin support not available to Algeria or Egypt. Fear of Islam, however, is a relativaly recent excuse for Arab rulers' allergy to democracy, for which no single explanation suffices.

For four centuries until the first world war the tribally organised Arab world was on the fringes of the Ottoman empire. The nation-states which accompanied democratic development in Europe did not emerge. European colonial penetration and then control led to the carve-up of the "Arab nation" into states with arbitrarily drawn borders and freqnently heterogeneous populations, leading to internal and cross-border feuding.

The struggle against colonialism and what Arabs saw as the "western" implant of Israel in Palestine spawned illiberal nationalist movements like Nesserism and Ba'athism which could justify their monopolies on power by the need for permanent mobilisation. When these failed, economically and militarily, many saw in the Islamist movements an alternative means towards the same ends. Communism and liberal capitalism have been easy to portray as foreign imports. "You can't import democracy like an air conditioner," says a Bahraini minister.

Western officials often argue that political liberalisation will come as economic reform raises living standards and builds a strong middle class. But too often it is the rich who profit from reform, while the poor suffer the dislocations of economic restructuring. Furthermore, this comfortably determinist argument fails to explain why the Islamists attract so many middle-class adherents and leaders.

None of this is to deny that Arah rulers do have their sources of legitimacy. King Hussein and King Hassan of Morocco claim descent from the Prophet Mohammed; King Fahd prefers to be known as the Custodian of the holy places of Mecca and Medina. President Hafez al-Assad of Syria has guaranteed religious tolerance in a multi-sect country. Furthermore, be imposed this regime, to almost universal sighs of relief at the time, on a Lebanon torn apart by sectarian warfare. Many Egyptians and Tunisians feel their governments have spared them an Algerian-style war.

Nor, in the communications era, can Arab rulers ignore popular sentiment. "No government can move outside the bounds set by public opinion," says Osama el-Baz, political adviser to Egypt's President Hosni Mubarak. "Gone are the days in which [Arab governments] could ram any position down the throats of its people."

Yet this new balance has not been institutionalised. Most regimes have so narrowed the political field that the mosque has become the only rallying point for the opposition, giving the Islamists a monopoly on dissent. "No other party has the opportunity to get in touch with the masses five times a day, every day of the year," admits one Bahraini minister, referring to Moslem prayer times.

Paradoxically, Iran, whose 1979 revolution started the Islamist scare, may now be setting the Arabs an example. Last month, Mohammad Khatami, an ostensibly liberal Shia cleric and student of de Tocqueville who says Islam and democracy are compatible, trounced tha presidential candidate of tha mullahs. True, he was one of only four (out of 238) candidates tbat the regime allowed to run. But this was a genuine contest – and a buge upset – within the rules defined by the regime.

Liberal Arabs in Egypt and Algeria tend to hold up the example of Jordan, which obliged its Islamists to subscribe to a national charter before allowing them to participate in elections. They have long argued that their regimes should define rules for genuinely participatory and pluralist politics and then allow in anyone – including the Islamists – prepared to sign up.

These rules would be very different from those of Iran. But the principle – of a regime enduring while giving citizens a chance to influence its course and practices – would be the same. And after Iran's recent election, it would be harder to portray the principle as a western import.

FINANCIAL TIMES

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Tuesday June 17 1997

A fig leaf for France

A British left-of-centre politician once famously said be would not wish to go naked into the conference chamber. The new Socialist government of France has, instead, left one covered by a few fig leaves. Its electorate voted for change. It will provide more of the same.

The German government was never likely to accept changes to the stability pact negotiated painfully in Dublin at the end of last year. The monetary union is now likely to have 11 members from the start, particularly since neither Germany nor France is likely to hit the Maastricht treaty criteria cleanly this year. Only Greece will fail the tests. Denmark, Sweden and the UK will exclude themselves. With the prospect of a broad Emu, the chances that Germany would accept a modification of what it views as a feeble agreement were zero. Having taken a battering over its plan to revalue gold reserves, it was in no position to do so.

All France could bope for was the odd leaf or two. One is the new, largely empty employment chapter. Another will be found in articles 102 and 103 of the Maastricbt treaty, which call for member states to "condnct their economic policies with a view to contributing to the achievement of the objectives of the Commnnity" and to "regard their economic policies as a matter of common concern".

Finally, the European Investment Bank may engage in venture capital operations for the first time. But this is merely an idea for study. Even if put into effect, it may not add to spending by tbe EIB. The sums involved are, in any case, likely to be insignificant.

A little thing like the French elections was never likely to shift the euro-train off its tracks. The people of France were free to vote for any policy they liked so long as it would take them to Emu. This was true when they voted for Mr Jacques Chirac as president. It is true now they have voted in Mr Lionel Jospin, his defeated rival, as prime minister.

Once Emu has begun, however, the politics will change. The fines laid down for governments with excessive deficits will be difficult to implement, since they require a qualified majority in their favour. Meanwhile, member states will be under strong pressure to raise public spending, notably on pensions, while several, particularly France, seem likely to find high structural unemployment rising still further.

Without a strong economic recovery, higher fiscal deficits are in prospect in several countries, along with an increasingly unbalanced fiscal and monetary policy mix. This combination could easily create an externally strong, bnt internally contentious, euro. The last few weeks have been turbulent. They are but a precursor of the turbulence still to come.

Free not fair

President Franjo Tudjman of Croatia has gained a second five-year term in office by winning 61 per cent of the vote in elections which international observers described yesterday as "free but not fair". That pithy assessment sums up the situation well. There was no apparent sign of ballot-stuffing or other electoral chicanery. By and large those who wanted to vote could do so. But there were a few notable exceptions.

These include roughly a quarter of a million Croatian citizens of ethnic Serb origin who were unable to register. On the other hand, 10 per cent of the voters were ethnic Croats from neighbouring Bosnia. The Serbs had fled from western Slavonia and Krajina during tbe Croatian army's campaigns to "liberate" those areas in 1995. They are now refugees and would have been unlikely to vote for Mr Tudjman. But as "father of the nation" he won enough support from rural Croats to secure re-election anyway against lacklustre opposition candidates.

The real complaint over the manner of Mr Tudjman's re-election stems from the grossly distorting mirror held up to the campaign by the state-controlled electronic media. Media distortion undoubtedly contributed to the poor showing of Mr Tudjman's opponents. The 57 per cent turnout shows widespread apathy. But it would be churlish to deny that Mr Tudjman has been elected by a clear-majority of those who voted. They see him as the man who led the drive for independence, built up the army, recovered Serb-held territory and supported sound economic policies.

Under his leadership Croatia has achieved macro-economic stability, low inflation and a strong currency. It is poised for a new wave of privatisation which will attract foreign investment and underpin rising living standards.

Mr Tudjman's goal is to secure Croatia's future as an internationally respected and prosperous central European democracy. His re-election shows bow far Croatia has progressed towards these targets. It also shows how far Mr Tudjman still has to go to give substance to the democratic process and respect hitherto unfamiliar concepts such as fair play.

Above all the election demonstrates the need for the international community to watch Zagreb carefully and insist on full compliance not only with the rules of democracy but also with its international obligations. The next test will be how far Zagreb complies with its obligations under the Dayton peace accords to permit the return of refugees to their homes in Krajina and elsewhere when eastern Slavonia returns to its control next month.

A new Tube

The phrase "public-private partnership" was one often invoked by Labour politicians in the lead-up to the election: seldom explained. Now it has fallen to Mr John Prescott, the deputy prime minister, to prove there is substance behind the slogan in planning the reform of London's ailing underground network.

Mr Prescott had not meant the government's internal discussions on the subject to come to light quite yet. But it reflects well on the new transport and environment "tsar" that documents such as those left behind at the BBC offices already existed. Apparently he has grasped both the urgency of the situation facing London's Tube and the fact that private finance will have to play a large part in a solution.

So far, so uncontroversial. The question is what form, exactly, will this private involvement take. Here Mr Prescott is operating within two parameters; one technical, the other political. The technical constraint is that the network must be at least 50 per cent private-owned to escape Treasury limits on public borrowing by public enterprises. The second is the wording of Labour's manifesto, which ruled out "whole-sale privatisation" of London's Tube.

Sceptics will argue that a public-private partnership which places a company under majority private control is privatisation in all but name. But there is room for some creative, "New Labour" thinking in between Mr Prescott's two goalposts. One idea, for example, would involve London Transport becoming a trust company, independent of government and partially self-financing but able to rely on a guaranteed base level of public funding or public matching funds. This could then grant individual, fixed-term franchises to private operators to run each Tube line.

Any such novel approach runs the risk of gimmickry. But for their part, proponents of a more traditional sell-off will have to show how their scheme would avoid pitfalls, such as poor co-ordination and the abuse of monopoly power, which have arisen in some past privatisations in the transport and utilities sector.

Far more important than the name and precise form of the new structure will be the results: whether it is able to mesh with an effective and integrated transport policy for London; whether it is transparent and accountable; whether it is more efficient; and, perhaps most important, whether it has the funds needed to invest in a Tube system the capital can be proud of. If Mr Prescott's solution achieves these things he can call it what he likes.

Hidden cracks in new consensus

Japan's faction-led political system seems to be intact, but subtle changes are at work, says **William Dawkins**

A recent late-night meeting between Mr Ryutaro Hashimoto, Japan's prime minister, and Mr Ichiro Ozawa, his erstwhile bitter enemy, to cook up an accord on defence policy might suggest that, after four years of upheaval, little has changed in Japanese politics.

After preparing an agreement under which Mr Ozawa, head of the opposition, would support a controversial government plan to extend leases on land used by the US military in Okinawa, the pair emerged smiling from their meeting over beer and a meal.

Outsiders could be forgiven for thinking the tendency for Japanese governments to reach backroom deals at the whim of party shoguns – the factional leaders who have bad a stranglehold over policymaking for most of the post-war ere – is as prevalent as ever. Consensus politics of this kind laid down the stability, or rather the monopoly on power, of Mr Hashimoto's Liberal Democratic party; and it was under successive LDP governments that Japan achieved its legendary economic sncccess in the post-war period. Bnt the habit, say critics, has become a liability.

"It means that the government's reactions are delayed, so that policies tend to be applied ont of synchronisation with events," says Mr Takashi Inoguchi, professor of politics at Tokyo University. He cites as an example the decision to pursue sweeping financial deregulation in the middle of a banking crisis.

This is a time when Japanese governments need to be fast on their feet. They must cope with an accelerating influx of international market forces, a possible emergence of trade tension with the US, the risk of Asian regional instability, plus a bost of pressing domestic problems such as a public debt crisis, an ageing population and a still shaky financial system.

The old consensus-based system appeared to have cracked in 1993, after the LDP lost an election for the first time in almost four decades, to a loose alliance, led by Mr Ozawa, which was pushing for more open government.

Mr Ozawa and his followers had left the LDP earlier that year after losing an internal power struggle. They joined a disparate group of smaller independent parties, and pledged to transform Japan into what Mr Ozawa calls a "normal country", governed not by one party, but by two or three competing groups, each capable of forming a government.

Has anything changed? On the surface – deceptive in Japan – no. The LDP is back on the throne, almost as if nothing had happened. Some of Mr Ozawa's followers have left because they do not like working with him, while others are so discouraged by their political experiment that they are preparing to rejoin the LDP.

As Mr Hashimoto's success in fixing a midnight tryst with his old rival shows, the LDP has rediscovered its skill in co-opting and neutralising political opposition. And the tryst is only the start of a wider rapprochement, in which Mr Ozawa has said he wants to support government legislation on a case-by-case basis.

And yet, beneath the appearance of having turned full circle, Japanese politics has undergone a potentially deep change during the LDP's fall and recovery. The structure has become a little less predictable and more competitive, the faction system's grip has weakened slightly and a younger generation is beginning to replace the geriatrics who used to rule the backrooms.

These changes are invisible to most. But the evidence is there in a number of subtle differences in the way politicians operate.

First, money. Faction leaders' ability to extract cash from companies and dole it out to their political minions was the glue that bound the post-war consensus, as penetratingly explained in a recently published book by Mr Jacob Schlesinger.* This stifled political debate, admittedly at a time when the race for growth meant that debate was not felt to be needed, and opened the way to corruption on a spectacular scale.

Pork-barrel politics was developed and refined by Mr Kakuei Tanaka, the former prime minister, who demonstrated that the way to power was to deliver motorways and golf courses – rather than bright policy ideas – to voters. But the system started to show its obvious weakness when Mr Tanaka nearly landed in prison for accepting bribes, only escaping sentence by dying in 1993.

A year later, new curbs on political funding took effect in an attempt to end Tanaka-style politics. To compensate, political parties are entitled to a state subsidy. More than half of the leading parties' funds now comes from the state. Significantly, that cash goes to party headquarters, rather than to faction bosses.

It is hard to say whether politics is cleaner as a result. But it is notable that the recent pay-offs by Nomura Securities to a gangster group are the first big financial scandal in post-war years in which politicians do not appear to be involved, says Mr John Neuffer, political analyst at Mitsui Marine Research Institute, a private think tank.

Second, electoral rules. Japan used to have a unique multi-seat constituency system. One district would return up to six members of parliament. Several of the MPs would come from different factions of the LDP. Three years ago, the system was changed to a continental European-style mixture of single-seat constituencies and proportional representation. The norm now is for the LDP to field one candidate, instead of several, per constituency – a further blow to the power of factions.

The new electoral system has weakened another old structure, the LDP's *zoku* or industrial sector lobby groups. As well as being divided into five factions, the LDP runs a number of *zoku*, whose job it is to co-ordinate policy with the businesses and government ministries involved in that sector – a feature of the traditional "iron triangle" of politics, business and bureaucracy.

Thus, an old-style multi-seat district chose several *zoku-gin* – industry "tribesmen" – from, say, telecommunications, construction and health. Mr Hashimoto, as head of the health and welfare *zoku*, was and still is counted on to influence the finance ministry in Tokyo to allocate a generous budget for healthcare in his home town.

There is, as yet, only a little evidence that politicians feel less at the beck and call of faction leaders. One example is how Mr Taku Yamazaki, a rising star in the LDP, has openly defied the calls by his faction boss for an alliance between the LDP and Mr Ozawa. Another is how Mr Shizuka Kamei, a rightwing member of the LDP and a Hashimoto henchman, engineered that late-night meeting on defence policy without consulting his faction leader. Such forwardness would have been unthinkable a few years ago, says Mr Dan Harada, a political commentator.

A further sign of change is the emergence of a more competitive political opposition than that which existed before the LDP's electoral humiliation in 1993. Until then, the main opposition group was the Japan Socialist party, which made itself unelectable by pursuing extreme policies, such as support for the Stalinist regime in North Korea or opposition to the security pact with the US. Once in power, in a curious alliance with the LDP from 1995, the Socialists switched smartly to the political centre, as a result of which their party has almost disintegrated.

The new opposition is chiefly composed of two moderate parties; Mr Ozawa's New Frontier party, and the Democratic party, led by Mr Naoto Kan, an aggressive young operator who won fame as former health minister by exposing his ministry's part in distributing Aids-infected blood to haemophiliacs. Even if Mr Ozawa's men are flirting with the government, political analysts agree that the current opposition is more serious about taking power than the Socialists were.

These are, admittedly, subtle changes. Prominent features of the old political structure have proved robust.

Faction bosses, for example, retain one of their greatest powers: to choose cabinet jobs. The old practice of rationing ministries between factions according to numerical strength was applied when Mr Hashimoto formed his first government after last October's general election. Faction leaders shared out the jobs based on seniority and clout, rather than merit.

Mr Keizo Obuchi's faction, of which Mr Hashimoto is a member, got the largest share with seven posts. As is often the case with faction leaders, Mr Obuchi stayed out of the cabinet, on the grounds that he could wield more power in the shadows than in the limelight.

The influence of the greatest faction boss of all, the late Mr Tanaka, lives on in the shape of his many disciples in positions of power, in government and opposition. Mr Hashimoto, Mr Ozawa and the Democratic party's popular Mr Kan all began their careers in the Tanaka faction.

The durability of factions invites the question of whether Japan will ever have a strong political opposition. This is seen by many as the pre-requisite for generating a political debate of the quality needed to tackle the many problems of becoming a mature economy.

Mr Harada believes that an opposition of sorts is emerging within the LDP in the shape of independent-minded politicians such as Mr Yamazaki, the LDP's head of policy. But that is not a hugely exciting prospect.

As an individual, Mr Yamazaki does not set minds alight. It would be unfair to expect him to. Tokyo political analysts agree that it will take several general elections for him and other aspiring political stars to adapt to the new system, to develop fresh talents and a taste for policy.

The risk is that this might not be fast enough to create the higher quality of government required to cope with the rapid changes under way – again under the surface – in Japan's economy. The Japanese government is not the first to have seen sovereignty eroded by the power of the markets. But its politicians' slowness to break the mould might turn it into an extreme example.

**Shadow Shoguns, published by Simon & Schuster, $25, 366 pages*

· OBSERVER ·

Executive distress

■ The US may be the home of global capitalism, but it seems that wealth creators, like prophets, are without honour in their own country. A research group has found that businessmen characters on US primetime television shows like "NYPD Blue" and "Roseanne" aren't usually out there creating jobs, helping the economy and generally playing a benign part in a modern enterprise culture. They're too busy committing more crimes than anyone else, even the career criminals.

The Media Research Center based in Alexandria, Virginia accuses TV of a "deep, passionate and pervasive bias" against business executives. Which raises the chicken-and-egg question of whether growing cynicism in the US about big business is a cause or an effect of the way it's portrayed on TV. Whichever way you look at it, the report's author Tim Lamer might be right to describe it as "a wake-up call to the business community".

Crossed lines

■ Telecom privatisation is never straightforward, but the four-man team from NatWest will have special cause to remember last week's sale of 49 per cent of Telecom Serbia to Stet of Italy and OTE of Greece.

The setting was a small Belgrade guesthouse – one lawyer catnapped under a table during the last night of talks. A virus on one of the two laptops kept destroying files, and translators worked in shifts as officials stamped and initialled thousands of pages of documents in English and Serbo-Croat, processed through one cheap printer.

Telecom Serbia's own phone lines were unreliable, and the mobile service wasn't much better: officials paced around the garden trying to get their mobiles to work. One contract was negotiated under a sun umbrella and the final deal comes complete with stains from an espresso spilt overnight on the final pages.

Greek gifts

■ No wonder officials from Greek telecom operator OTE got a warm welcome in Belgrade when they turned up to negotiate the Telecom Serbia deal. President Slobodan Milosevic owed the Greeks a large favour.

Greek agriculture minister Stefanos Tzoumakas has told parliament that the late prime minister Andreas Papandreou, backed by his cabinet, agreed to buy four elderly Canadian firefighting aircraft the Serbs no longer wanted for a healthy $25m. Nobody seemed to care that the October 1995 deal violated the UN embargo on trade with the rump Yugoslavia.

The Socialists followed a well-established practice used by Greeks and Serbs to get round the sanctions. They set up an offshore company based in Cyprus to handle the transaction, which was guaranteed by the Greek and Serb governments.

Foreign devils

■ Xenophobia in normally tolerant Thailand seems to be on the rise. Ministers have blamed foreign analysts for the collapse of the Thai bourse (corporate earnings are expected to fall sharply) and Singapore for derailing a Thai plan to build a new south-east Asian hub airport (more than a dozen Thai governments have failed to implement the plan).

Now interior minister Sanoh Thienthong says an unnamed foreign government competing with Thailand for foreign investment has been stirring up protests by 800 textile workers – sacked when a factory went bankrupt – to give the country a bad image among investors. An alternative view is that the workers were sacked by a Thai company without their full severance pay, and that textile companies are leaving Thailand because it's no longer competitive with low-wage assembly centres like Indonesia, China and Vietnam.

Sitting pretty

■ The chaotic feuds within France's political parties since the general election have torpedoed attempts to devise a proper seating plan for the National Assembly. So, for the time being, the deputies will be arranged in alphabetical order.

This arrangement puts former centre-right RPR prime minister Alain Juppé towards the left of the chamber and awards the wooden spoon to Socialist from Moselle Jean-Yves Le Déault – he'll be next to Jean-Marie Le Chevallier, the only deputy from the far-right National Front.

The only exception to the rule is Philippe Séguin, who's poised to succeed ex-premier Alain Juppé as leader of the centre-right RPR: his previous status as leader of the National Assembly may explain his unalphabetical placing on the extreme left of the chamber. Given his record of coolness towards some aspects of the European Union, he seems just the man to keep the seat warm for the Eurosceptic Communists.

The Financial Times

100 years ago

British Tea Tables
There are several material points about which we should like to have more information in the prospectus of the British Tea Table Company (1897). This company is formed with a capital of £300,000 for the purpose of acquiring the businesses of Pearce's Dining and Refreshment Rooms and the British Tea Table Company. But why should the combined profits only of the two companies be given, thus making it impossible to judge whether or not either might have been running at a loss?

50 years ago

Argentina's Car Imports
Buenos Ayres, 16th June. According to the latest Central Bank announcement, it has been decided to suspend until further notice the granting of import exchange permits for all motor-cars. This measure, which follows Friday's announcement of the intention similarly to restrict imports of lorries, omnibuses and chassis, means virtually the closure of the Argentine market to all motor vehicles for the remainder of the year. The consequences of this ban will affect all manufacturers alike.

FINANCIAL TIMES
Tuesday June 17 1997

Turkey's prime minister steps back from handover plan

Defiant Erbakan looks to big election victory

By Kelly Couturier in Istanbul

Mr Necmettin Erbakan, Turkey's Islamist prime minister, remained unbowed yesterday in the face of tremendous military pressure against his government and expressed confidence that his ailing coalition would survive until early elections could be held in a few months.

At a rare press conference with foreign correspondents, Mr Erbakan predicted that his Welfare Party would win at least 10m votes in the next general election – up from its previous best result of 6m in December 1995.

The Turkish armed forces, scarcely bothering to hide their desire that Mr Erbakan should step down, openly accused Mr Erbakan's government last week of encouraging the spread of radical Islamic activity and threatened to use force if necessary to protect the secular Turkish state. Mr Erbakan, questioning the army's assertion it had the legal right to intervene against domestic or foreign threats when it deemed necessary, said it was up to the government to decide when to seek the support of the armed forces.

Mr Erbakan refused to confirm or deny reports he would step down this week and cede the premiership to his secular coalition partner, Mrs Tansu Ciller, head of the conservative True Path party, in a bid to appease the military and other critics of the year-old Islamist-led government.

Under a plan announced last week, Mrs Ciller would lead the coalition as a caretaker administration until elections in the autumn.

"In the next one or two days, the 54th government will come to an end. In such an environment, the thing to do is form an election government," she said yesterday.

Analysts said the plan was unlikely to ease pressure from the military, the self-appointed guardians of secular republicanism. A statement from a senior True Path official over the weekend indicated that the Ciller-Erbakan plan to continue the coalition might not pass muster in Mrs Ciller's own party.

Mr Mehmet Golhan, the True Path deputy chairman, said on Sunday that he and his colleagues would debate ways to form a new government that would exclude Mr Erbakan's Party.

President Suleyman Demirel, who must approve any coalition switch of prime ministers, has not publicly indicated whether he will do so. Parliament, where the ailing coalition lacks a real majority, must also approve the change, with a vote of confidence.

Mr Erbakan avoided direct criticism of the military at yesterday's press conference, instead blaming the crisis that has brought his government to a standstill on "some parts of the media and capital investors" creating unrest in Turkey to further their own objectives.

Those who had created the "artificial crisis" to hurt the government would have their hopes destroyed at the elections, the prime minister said.

The Welfare Party narrowly won the 1995 poll with 21 per cent of the vote, while the True Path obtained about 19 per cent.

Mr Erbakan said that he was confident the electorate would "choose freedom" in the planned autumn poll.

The prime minister said: "If there is going to be democracy in Turkey, its backbone will be the Welfare Party."

THE LEX COLUMN

French fig-leaf

For all the fine words in Amsterdam, the single currency project looks more fragile than ever. Yesterday the French were proffered a fig-leaf in the form of some platitudes about a renewed focus on growth and jobs. In exchange, they reneged on their election commitment to renegotiate the stability pact. But this rickety facade of unity cannot disguise the dangerous rift that has emerged between France and Germany on monetary union. Both countries remain committed to the goal, but there is increasing tension about how to get there. Germany continues to stress financial discipline as an end in itself; the new French government sees it merely as a test it has to pass.

This flammable dispute could easily erupt, with the state of French public finances a possible catalyst. Mr Helmut Kohl, the German chancellor, has shown he does not want the entry criteria for monetary union to be debauched. Yet Mr Lionel Jospin, the French prime minister, has made clear that he will not be bound by the letter of the Maastricht criteria. Bond markets continue blithely to trust that this circle will be squared. Quite how remains a mystery.

Iri

The Italian government's decision to dismantle Iri, the state holding company, is so sensible that it is only a shame it did not happen years ago. It had become impossible to tell who owned the state's industrial assets – the Treasury or Iri's management. As a conglomerate with hugely diverse investments, Iri was slow to promote change. But the appointment of a new boss with a mandate to liquidate it in three years means it now has no choice. And there should be substantial economic benefits from the demise of Mussolini's vehicle for economic recovery.

That said, it will hard to liquidate Iri within the time frame. As a dying entity, the group will struggle to retain its more able managers. And it has tricky corporate issues to resolve. Investments in SGS-Thomson, Autostrada and even state broadcaster Rai should be bankable. And there is an obvious solution to Finmeccanica's problems; namely, breaking it up and forging a variety of alliances along the lines of those under negotiation with General Electric Company. But this process will take time. And it will take a lot of work to get Alitalia, Banca di Roma and Finmare off its hands.

But Alitalia demonstrates the dangers of continuing the Iri regime. Undoubtedly, there were significant impediments to the restructuring that Alitalia so badly needs. But the pace has been so slow that Alitalia risks being a non-starter in the race for European global alliances. And that would be a great loss for the Italian taxpayer.

UK equities

It is both surprising and worrying that the FTSE All-Share index fell only 0.7 per cent yesterday on news that the Treasury is keen to abolish tax-exempt institutions' dividend tax credits in the forthcoming Budget. Of course, the chancellor has not yet spoken. And a little risk is probably already priced in. But when abolition would cut around 10 per cent off the value of company cash flows to shareholders, with possibly another 3 per cent for the cost of topping up pension funds, the market's *sang-froid* is odd.

It is also rather dangerous. To see why, imagine you are a Treasury hatchet-man. You are cooking up an ingenious scheme to nab billions of pounds from pension funds. But although your political masters are licking their lips at the prospect of all that lolly, they are a touch nervous of prompting a stock market tumble when they are supposed to be cosying up to business. Hence the danger in yesterday's relative market calm. It could well lead Whitehall to conclude – wrongly – that the reaction to a real announcement would be similarly restrained.

British Energy

Investors' panic reaction to Mr Robert Hawley's sudden departure from British Energy may prove short-sighted. When a company is to be chief executive-less in a fortnight's time, with no successor in sight and a chairman who has no great experience of the industry, nervousness is understandable. But whatever Mr Hawley's strengths, he was also an aggressive diversifier. BE's existing nuclear business was by definition finite, the argument ran, so its phenomenal cashflows needed to be invested in fresh businesses to give the company a long-term future. In some areas, such as using BE's nuclear skills abroad, this made powerful sense. In others, such as gas-fired generation, it looked a classic utility diversification story.

There is no sign whatever that such arguments lie behind Mr Hawley's departure, nor that any change of strategy is now planned. Nevertheless, his absence provides shareholders with a golden opportunity to press the company to focus its ambitions. If they fail to take advantage of it, they have only themselves to blame.

Norwich Union

Should Norwich Union members be jumping for joy? Well, yes and no. The insurer's shares are trading at levels beating most analysts' wildest dreams. So members are probably in no mood to split hairs. But to see why all is not quite perfect, consider Norwich's institutional book-building – a process principally designed to maximise proceeds. Norwich generously decided to fix the institutional price at 290p, the top of its indicative range, despite the offer being more than 10 times oversubscribed at that level. The shares then put in a healthy first-day performance in a battered market, closing at 324½p. There can be little doubt Norwich could have priced the offer more aggressively and diluted members a bit less, without risking a dreadful after-market, had it wanted.

For those members who took up the option to buy more shares at a further 25p discount, the decision to fix the price low is naturally excellent news. But the rest must be wondering whether Norwich has sold them a little short.

Additional Lex comment on NatWest, Page 25

Risk of new computer timebomb

Continued from Page 1

the date of processing, end of file will be reached prematurely as soon as records are written with dates in 1999."

Mr Robin Guenier, head of TaskForce 2000, the UK government-sponsored body set up to increase awareness of the millennium bomb, said that if companies dealt with the problem at the same time as the millennium bomb, costs could be kept to a minimum. He was concerned many small and medium-sized companies were refusing to take the millennium bomb seriously.

Mr Bob Hammersley, head of Year 2000 compliance for Sainsbury, the UK supermarket chain which is a leader in tackling the millennium bomb, said it was looking at the 999999 problem at the same time. It intended to finish all modifications by the end of 1998, leaving ample time for testing.

Japan seeks military role in peacekeeping

By William Dawkins in Tokyo

The Japanese government yesterday called for legislation to enable the military to react to security crises outside Japan for the first time in over 50 years.

If passed by parliament in the autumn, such measures could clear the way for Japan's first involvement in peacekeeping operations in east Asia. They would also help Japan to implement tougher new defence guidelines with the US, due for cabinet approval in September.

Approval of the legislation would mark a break with Japan's rigid interpretation of its pacifist constitution, adopted after the second world war, which technically confines Japan's use of military force to a limited defence of its territory under the umbrella of the US military.

The call for the legislation came from Mr Seiroku Kajiyama, chief cabinet secretary. "The demand for strong leadership ... is natural," he said. "So we will establish a system to deal effectively with emergencies in areas surrounding Japan as soon as possible."

Details have not yet been revealed, but the interim Japan-US report on the first review of their defence guidelines for almost 20 years proposes 40 examples of where the Japanese military should provide support for US forces in areas outside Japan during a war in the region. Among examples in the report, published last week, are minesweeping, supplying fuel to US warships and aircraft, and evacuation of civilians.

Until now, such assistance has been limited in scope by acute anxieties of previous Japanese governments over contravening the constitution and upsetting neighbours. Japanese minesweepers, for example, were only sent to the Gulf after the end of the Gulf War.

The limit of areas where Japan would undertake to support the US military during wartime has yet to be settled by the two governments.

However, Japanese and Asian attitudes have changed in recent years. A growing number of Japanese politicians believe a modest Asian peacekeeping role – still under a US umbrella – would bring greater diplomatic influence and could support Tokyo's bid to become a permanent member of the United Nations Security Council.

Meanwhile, the instability of North Korea, suffering severe food shortages, has reminded South Korea of the advantage of a strong US security presence, for which Japanese support is important.

Cracks in consensus, Page 17

NatWest crisis deepens as executive quits

Continued from Page 1

and said it was unclear where NatWest was heading. "The whole strategy is being shredded, and we want to know what the new plan will be," the investor said.

Another said it was likely NatWest would now be the subject of a bid, or a fresh merger proposal from Abbey National, another British bank which NatWest has approached. "They would not be in a very good position to defend themselves," he said.

Mr Wanless is taking over temporarily as chief executive of NatWest Markets, and the bank will look outside for a replacement for Mr Owen.

Mr Owen was on a one-year rolling contract, and earned a bonus of £300,000 last year after volunteering to take a cut of £200,000 following the discovery of options mis-pricing. The bank said it was discussing severance terms.

NatWest said it expected group profits would not exceed £770m in the first half as a result of the setbacks in NatWest Markets. This would imply a fall in investment banking profits from £261m to £150m. NatWest shares closed 42p down at 755p.

Shares in Barclays, another leading UK bank, also fell sharply on renewed doubts over its BZW investment banking arm.

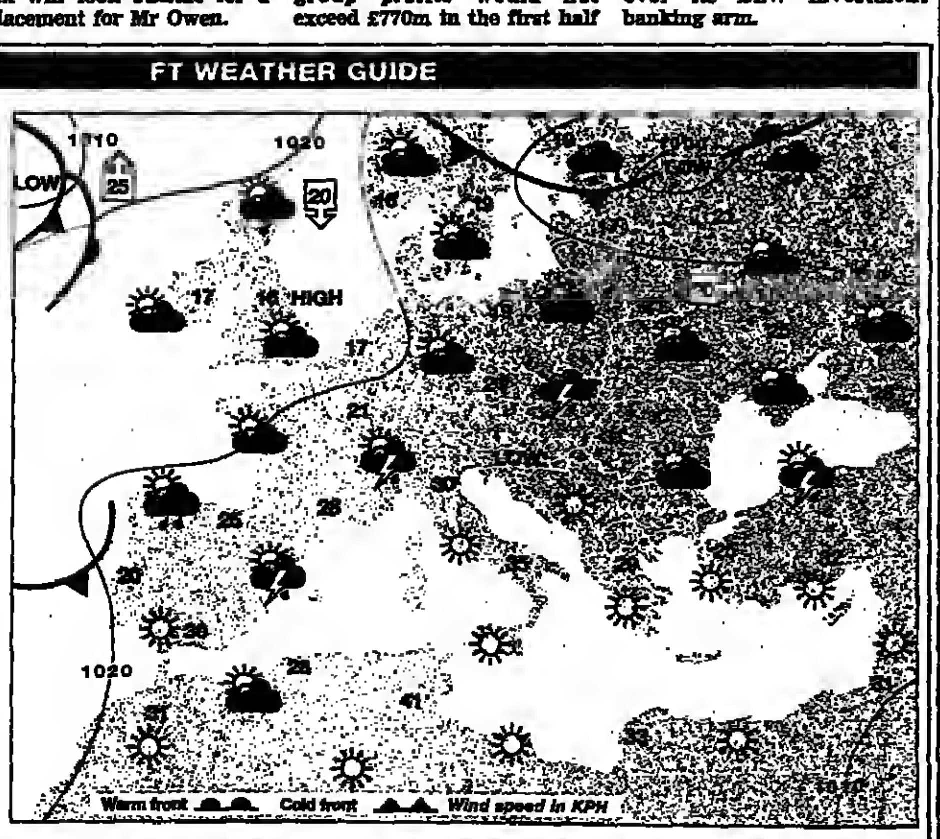
FT WEATHER GUIDE

Europe today

The Benelux and northern Germany will have sun mixed with cloud. Southern Germany and northern France will be showery. Showers are also expected for eastern France, but southern France will be dry with sunny periods.
The Pyrenees and north-eastern Spain will have rain and thunder showers. Most of the rest of Spain and Portugal will be dry and sunny.
Northern Italy will be showery, while the south will be sunny. Greece, the western Balkans and southern Turkey will be sunny.

Five-day forecast

High pressure will bring settled conditions to north-western Europe over the next few days. A disturbance will move into western Europe in the second half of the week, causing increasing cloud, showers and rain.
The Mediterranean will be settled.



TODAY'S TEMPERATURES

Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

	Maximum Celsius										
		Beijing	fair 30	Caracas	fair 32	Faro	sun 26	Madrid	fair 27	Rangoon	shower 31
		Belfast	cloudy 17	Cardiff	cloudy 19	Frankfurt	fair 22	Majorca	fair 27	Reykjavik	fair 12
Abu Dhabi	sun 39	Belgrade	cloudy 30	Casablanca	fair 24	Geneva	cloudy 23	Malta	sun 32	Rio	fair 26
Accra	thund 28	Berlin	fair 17	Chicago	fair 23	Gibraltar	fair 28	Manchester	fair 15	Rome	sun 30
Algiers	fair 28	Bermuda	cloudy 29	Cologne	fair 19	Glasgow	cloudy 18	Manila	fair 34	S. Frsco	fair 23
Amsterdam	fair 17	Bogota	shower 19	Dakar	fair 29	Hamburg	fair 18	Melbourne	cloudy 13	Seoul	sun 31
Athens	sun 32	Bombay	shower 33	Dallas	thund 33	Helsinki	cloudy 20	Mexico City	shower 29	Singapore	fair 32
Atlanta	thund 31	Brussels	fair 19	Delhi	sun 39	Hong Kong	rain 28	Miami	fair 32	Stockholm	rain 17
B. Aires	fair 15	Budapest	thund 24	Dubai	sun 39	Honolulu	fair 31	Milan	shower 27	Strasbourg	fair 22
B.ham	fair 16	C.hagen	fair 17	Dublin	fair 19	Istanbul	sun 26	Montreal	rain 21	Sydney	shower 14
Bangkok	fair 37	Cairo	sun 35	Dubrovnik	sun 30	Jakarta	shower 32	Moscow	rain 20	Tangier	fair 25
Barcelona	thund 24	Cape Town	shower 12	Edinburgh	cloudy 14	Jersey	fair 18	Munich	rain 20	Tel Aviv	sun 31
						Karachi	sun 36	Nairobi	fair 26	Tokyo	shower 27
						Kuwait	sun 44	Naples	sun 30	Toronto	sun 23
						L. Angeles	fair 24	Nassau	fair 32	Vancouver	rain 19
						Las Palmas	sun 26	New York	fair 25	Venice	fair 26
						Lima	cloudy 28	Nice	fair 26	Vienna	cloudy 20
						Lisbon	fair 21	Nicosia	sun 30	Warsaw	cloudy 19
						London	cloudy 18	Oslo	cloudy 18	Washington	fair 27
						Lux.bourg	fair 20	Paris	fair 21	Wellington	shower 14
						Lyon	cloudy 23	Perth	fair 24	Winnipeg	rain 21
						Madeira	sun 22	Prague	shower 19	Zurich	shower 19

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FINANCIAL TIMES
COMPANIES & MARKETS
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IN BRIEF

Fiat ahead 6.7% in first quarter

Fiat, Italy's largest private-sector company, reported a 6.7 per cent rise in first-quarter earnings to L495bn ($290m) on a 4.4 per cent increase in sales to L20,844bn. The group benefited from government incentives to encourage new car sales in Italy. Page 22

Swedish fashion retailer up 63%
Shares in Hennes & Mauritz rose sharply after the Swedish fashion retailer exceeded forecasts and posted a 63 per cent jump in half-year profits to SKr1bn ($129m). H&M's B shares surged 7 per cent to SKr285.50, and have now risen 171 per cent in the past year. Page 23

Creditors put pressure on Eurotunnel
Eurotunnel's creditor banks may push for the right of "substitution", which would render shares in the company worthless, if investors refuse to endorse a restructuring plan. Page 22

Brazilian banks in battle for Banerj
Bradesco and Banco Itaú, the two largest private banks in Brazil, have emerged as the leading contenders to buy Banerj, the retail bank owned by the state of Rio de Janeiro. Page 24

British Steel maintains dividend
British Steel has held its dividend at 10p for the year in spite of a 59 per cent drop in pre-tax profits caused by the pound's appreciation and a fall in steel prices. Page 25

German fund manager under review
Germany's Commerzbank and Bayerische Vereinsbank will hold talks on possible changes in the ownership structure of Adig, the fund management group. Adig has total funds under management of DM49bn ($28.2bn). Page 22

Thirsty Russians lift Camellia profits
Increased demand for tea in the former Soviet Union helped Camellia, the UK investment group, lift pre-tax profits by 13 per cent to £14.6m ($23.8m) last year. Page 25

Companies in this issue

Market Statistics http://www.FT.com

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Allianz	391	+	9.70
Kali & Salz	183.10	+	5.30
Linde	1328	+	36
Falls			
Aachen Mnch	1505	-	35
DLW	175	-	2.50
Porsche	2100	-	50
NEW YORK ($)			
Rises			
Advest Grp	25¾	+	2½
Natl Oilwell	53¼	+	3¼
Polygram	53⅝	+	2¾
Falls			
Fla Hldgs	32¾	-	4½
NatWest	74¼	-	3⅝
Rhone-Poulenc	75⅝	-	4
LONDON (Pence)			
Rises			
Calderburn	57½	+	5
T&N	158	+	21
Falls			
Abby Natl	868	-	27½
Brit Energy	145½	-	13
Psion	407½	-	57½
Railtrack	624	-	30½
TORONTO (C$)			
Rises			
Beacon Eye	3.95	+	0.45
Golden Rule	3.10	+	0.45
Golden Star	14.00	+	1.00
Falls			
Amer Mineral	7.10	-	0.80
Gaming Lottery	5.60	-	0.80
Jewett-Cameron	6.25	-	0.95

PARIS (FFr)			
Rises			
Bert. Faure	320	+	20
Comp Modernes	2848	+	57
Labinal	1325	+	50
Falls			
Carrefour	4224	-	61
Lafarge	381	-	9.90
Pernod Ricard	304	-	8.10
TOKYO (Yen)			
Rises			
Dai Nippon Prt	2470	+	50
House Food	1960	+	50
Kandenko	1050	+	65
Royal	2300	+	90
Yamazaki Bkg	2050	+	90
Falls			
Marudai Food	519	-	19
HONG KONG (HK$)			
Rises			
Amoy Props	7.90	+	0.10
Cathay Pac	12.85	+	0.25
Cosco Pac	11.60	+	0.80
HK Electric	30.90	+	1.45
Swire Pac B	11.30	+	0.35
Falls			
Jardine Mtr	10	-	0.40
BANGKOK (Baht)			
Rises			
Fancy Wood	17.75	+	1.50
Phoenix Pulp	26.50	+	2.25
Thai Setakij	37.25	+	3.25
Falls			
Alphatec Elec	35.00	-	3.75
Crown Seal	26.50	-	2.75
Intl Eng	30.00	-	2.00

New York & Toronto prices at 12.30

Investors flock to Portugal power sale

Country's biggest privatisation is subscribed 37 times

By Peter Wise in Lisbon

Yesterday's issue of shares in Electricidade de Portugal, the national power utility, was heavily oversubscribed, leaving retail and institutional investors with only a fraction of the shares they ordered. The country's biggest ever privatisation was subscribed 37 times by retail investors and 25 times by institutions.

"Allocating the sbares is proving painful," said a banker close to the global co-ordinators. "Everyone except for a group of first-class institutions will get very little."

Portugal'a Socialist government priced the initial public offer at Es2,250 a share, the maximum limit of the Es1.750-Es2,250 range announced earlier. The sale of 180m shares, representing 30 per cent of Electricidade de Portugal's (EdP) total capital, raised Es368bn ($2.1bn) allowing for discounts for small savers.

The price, which values the company at Es1,350bn, was fixed shortly after the Lisbon stock market closed yesterday at a record high for the seventh consecutive day. The BVL-30 index rose 3.4 per cent to 3,170.84.

More than 772,000 individnals, about 10 per cent of the country's adult population, applied for a total of 3.6bn shares. They are expected to receive only three shares for every 100 they ordered. Portugal's previous biggest privatisation attracted only 85,000 retail investors.

Institutions placed orders for more than 2bn shares, 25 times the 80m shares on offer in the institutional tranche.

Analysts forecast the shares will make strong gains when they begin trading in Lisbon today as institutions seek to increase their allotments. EdP shares will also be traded in London and New York.

The price fixing yesterday came amid growing debate over whether the government, acting on advice from global co-ordinators ABN-Amro Rothschild, Goldman Sachs and Banco Português do Investimento had set the price too low.

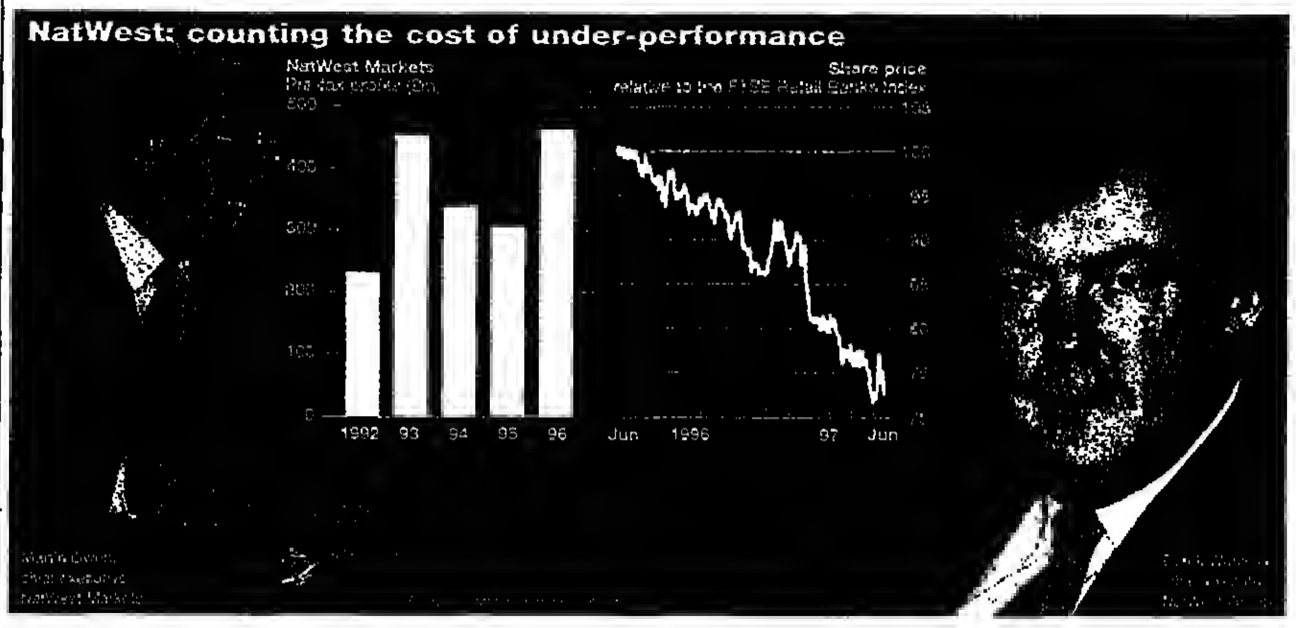
A number of independent analysts estimate tbe real value of EdP at 40 per cent or more above the offer price and believe the government could bave raised Es45bn-Es90bn more from the offering by pricing it higber.

But a banker close to the global co-ordinators said the top end of the price range bad been set at a discount of about 15 per cent to Endesa, the biggest Spanish electricity group. This was based on its forecast 1997-98 price/earnings ratio.

"No one could justify pricing an IPO of EdP at a premium to a comparable utility such as Endesa," he said.

The Lisbon market had also gained 10 per cent since the price range was announced on May 15 and had been officially reclassified as a developed rather than an emerging market, he said. That could justify increasing the price but there was no mechanism for changing the range once set.

The demand for EdP bad also been inflated by retail investors and institutions who applied for more shares because they knew they would be allotted less.



NatWest deals another blow to British banking's image

After the demise of S.G. Warburg Group as an independent bank and the collapse of Barings two years ago, the reputation of British investment bankers' management ability fell sharply. Mr Martin Owen's resignation as head of investment banking at National Westminster Bank yesterday dealt it a further blow.

Mr Derek Wanless, NatWest's chief executive, who has taken over Mr Owen's job temporarily, did little to temper the blow with his comments. NatWast's recent appointment of American investment bankers to senior positions had brought "a very different degree of professionalism", he said.

Mr Tom Whelan, head of equities at NatWest Markets, the investment banking arm of the high street bank, Mr Chip Kruger and Mr Gary Holloway, co-heads of fixed income, and Mr Stefan Harris, head of treasury, will now have that professionalism severely tested. They must rally a business that has proved less profitable than NatWest believed.

NatWest formed NatWest Markets in 1992 ont of the remains of County NatWest, the merchant bank involved in the Blue Arrow affair, its treasury operations and its stockbroking arm, formerly Wood McKenzie. It had appeared to be making steady progress.

However, an upset over options mispricing in Marcb destabilised the operation and Mr Wanless is back at the helm for an unspecified period. NatWest will consider outside candidates to sncceed Mr Owen as well as senior insiders, such as Mr Peter Hall, the investment bank's president and chief operating officer.

Senior managers of the parent bank will now face questions. Mr Wanless has overseen the strategy of reinvesting capital gained from selling NatWest's US retail bank into investment banking. It was also a strategy approved by Lord Alexander, the bank's full-time chairman, and the rest of the board.

There is uncertainty over NatWest Markets' entire strategy. While it has presented itself until now as a candidate to become one of the world's leading investment banks, Mr Wanless said that all its operations were under review. It wanted to compete globally only in the operations where that made sense.

Mr Wanless played down suggestions that NatWest was making a wholesale retreat from its earlier ambitions, the bank appears to be edging towards taking tough decisions. Some managers believe its eurobond operations may have to be shut down or curtailed sharply.

"There is no question of a U-turn or a retreat. We are just saying that we have got to a certain stage, and we have got an opportunity to look around and review progress," Mr Wanless said.

Other senior managers in NatWest say they do not have much alternative. "There has been a rush among some European banks to be all things to all men in investment banking, and quite frankly, we are all finding the going much tougher than we thought it would be," said one manager.

The problems at NatWest Markets have emerged after a period of rapid growth. It has grown by using most of the $3.5bn that it gained from the sale of NatWest Bancorp into buying several niche businesses. These include Gartmore, the UK fund manager, and Greenwich Capital, a US bond trading bouse.

Some rivals argue that this strategy was inherently hard to pull off.

"Buying boutiques like that places a big premium on your ability to integrate the businesses and getting them to work as a coherent whole. It is like running a conglomerate otherwise," said one senior director at a rival.

It certainly required the senior management to have a high degree of skill. Inside NatWest, Mr Owen is seen to have been good at identifying the potential of acquisitions and selling this to the board. However, he is criticised for failing to exert tough enough controls and discipline.

One senior diractor at another bank said the upset over the mispricing of interest rate options that eventually led to Mr Owen's departure appeared symptomatic.

The problems are reminiscent of those at Warburg three years ago which eventually led to its acquisition by Swiss Bank Corporation. Although it seemed to be making solid profits in 1993, the figures deteriorated the following year, revealing that it had not been tightly enough managed.

One investment banker said that British investment bankers have tended to lack the analytical skills and focus prevalent at US rivals.

NatWest's immediate problem is to stem discontent among its shareholders.

"It is normal in cases such as these for the buck to stop with the chief executive of the company, rather than just a divisional manager," said one investor.

John Gapper and **William Lewis**

PC companies launch rival in network battle

By Louise Kehoe in San Francisco

Leading personal compnter makers including Compaq, Dell, International Business Machines and Hewlett-Packard yesterday launched a class of Network PCs aimed at corporate buyers.

The product is the PC makers' answer to the competitive challenge posed by the Network Computer initiative led by Mr Larry Ellison, chairman and chief executive of Oracle, the leading database software company.

Both the Network PC (NetPC) and Network Computer (NC) are part of the industry's efforts to contain the costs of owning, managing and maintaining corporate networks of desktop computers. According to industry estimates, the so-called "total cost of ownership" – including upgrading software – amounts to as much as $12,000 a year for each desktop computer.

The NC is essentially a terminal that relies on central computers known as servers. In contrast, NetPCs hold their own software and data.

Unlike the NC, which breaks with existing PC standards, such as Microsoft's Windows operating system, the NetPC is compatible with standard PCs and PC networks. It also contains features which make it easier for companies to manage networks of PCs.

NetPCs incorporate software giving network managers greater control over employees' desktop computers. For example, a manager can limit the applications that are available on any NetPC and, if desired, disable the floppy disk drive or CD-Rom on an individual machine, thus preventing loading of new software. Most NetPCs come in "sealed box" designs to prevent users adding equipment without approval, and they can be turned on or off remotely.

"The NetPC is a fully functional PC that can be more tightly managed," said Mr Mike Aymar, vice president of Intel's desktop products group. He estimated that the total cost of ownership of a NetPC will be between 3 and 5 per cent lower than for a standard PC. NetPC prices will be $300 to $300 lower than those of standard PCs with equivalent performance, he said.

He added, however, that the real costs of PC networks are difficult to quantify. "We don't know how much it costs when an office worker messes up his PC by adding his favourite screen saver, or game, or trying to add more memory."

Industry analysts expect many NetPC features will eventually be standard in PCs designed for corporate buyers. In the meantime, PC makers will use the NetPC to counter the challenge of the NC, which is being promoted heavily by Oracle and Sun Microsystems.

Intel, which provides microprocessors for both, makes no bones about picking sides. "We believe the Net PC is the better solution," said Mr Aymar.

Barclays announces link-up with Japanese bank Takugin

By Gillian Tett in Tokyo

Barclays, the UK bank, yesterday announced it was negotiating a strategic alliance with Hokkaido Takushoku, the large Japanese bank also known as Takugin, to develop joint asset management and investment banking services in Japan.

Tbe mova bigblights attempts by foreign financial groups to expand into the Japanese market ahead of the planned financial deregulation known as "Big Bang".

Late last week the Japanese government unveiled a proposed timetable for Big Bang, which could trigger significant reform in the country as early as next year.

Barclays yesterday acknowledged that Big Bang had been a crucial factor behind its planned alliance with Hokkaido Takushoku.

The bank is the largest lender in the northern Japanese island of Hokkaido and has been plagued with severe financial problems in recent years, including Y933bn ($8.2bn) of property-related bad debts.

Mr Andy Simmonds, chief executive of the Barclays group in Tokyo, said: "From Barclays' perspective Big Bang is going to lead to a lot of new opportunities and so the chance to work with a domestically orientated group (in Japan) is welcome."

Barclays and Takugin yesterday said they had no plans for cross-shareholding, since the alliance would not be an exclusiva ona, adding that details of the collaboration would be discussed in the coming weeks.

Analysis suggested that Takugin's recent financial problems may have prompted the alliance.

One said: "The healthiest Japanese banks think they can develop the market on their own - they don't think they need the foreigners."

A number of other foreign financial institutions are also seeking closer ties with Japanese partners in order to offer the sophisticated financial products that Japan currently lacks to the country's vast pool of savers and companies.

Putnam Investments, a big US fund manager, and Nippon Life, Japan's largest life insurer, announced a strategic pension funds alliance last month. Nippon Credit Bank, the ailing long term credit bank, and the US group Bankers Trust have also announced a strategic alliance and plan a token cross-shareholding.

As Elizabeth Daniels, financial analyst at Morgan Stanley in Tokyo says: "What the Japanese companies can offer is distribution ability and what the foreign ones have is product skills – it's a question of teaming up product skills with the investor base."

NZ group emerges as Burns investor

By Nikki Tait in Sydney and Terry Hall in Wellington

Mr Graeme Hart, the New Zealand-based businessman, yesterday emerged as the mystery buyer of a 14.9 per cent stake in Australia's Burns Philp, the troubled food ingredients group.

The stake was snapped up for A$2.50 a share – or just under A$200m (US$150m) in total – in an after-hours raid last Thursday.

Mr Hart said his privately-owned Rank Group intended to be a "long-term investor" in Burns Philp. The New Zealander met Mr Ian Clack, Burns' outgoing managing director, in Sydney yesterday – a meeting which Rank said later was "amicable and constructive".

The discussions covered "a range of issues, including Burns Philp's current objectives, with which the Rank Group identifies", Rank added.

Mr Clack said Burns "welcomes Mr Hart's presence on our share register and his demonstration of confidence in our long-term strategy for tha company", and that Rank endorsed Burns' plan to divest its non-yeast operations. Board representation for Rank was discussed, but was "not an immediate priority for either party".

Mr Hart got his first big business break almost a decade ago, when he bought the former Government Printing Office in New Zealand for NZ$23m, turning it into a company that at one stage was valued at NZ$800m (US$552m).

He bought a string of publishers and booksellers, including a controlling interest in Whitcoull's, the New Zealand bookseller and stationery group.

Mr Hart sold Whitcoull's to the US-owned Blne Star group for NZ$320m last year. "You can be sure I have not cashed up to put my money in the bank," he said at the time.

Mr Hart last appeared on the Australian corporate scene in 1994, wben be joined with Coles Myer, Australia's largest retailer, to mount a A$501m bid for Foodland Associated, the Western Australian grocery business. However, the deal encountered regulatory problems.

Mr Hart, once described as New Zealand's wealthiest man, bought his stake in Burns at a significant premium to the previous closing price of A$2.03. Yesterday the shares closed down almost 4 cents, at A$2.39.

Burns has experienced difficulties in recent years, as it tried to turn itself from a diversified industrial and distribution group into a specialist food ingredients business. A series of acquisitions failed to pay off, and the company became embroiled in a price war with McCormick, the US spices group.

The company said last month that it intended to sell its North American and European consumer spice and industrial food service operations, which made a loss of A$31.7m in the first nine months of 1996-97.

It would focus instead on its profitable yeast business, which had sales of about A$1.2bn in 1996.

JAL tries to set course for turnround

The Japanese carrier is struggling to return to profit in an increasingly competitive market

A tranquil atmosphere pervades the new head office building of Japan Airlines (JAL), near Tokyo Bay. But the calm that emanates from the white corridors and casually placed works of art belies the difficulties the company faces as it struggles to return to profitability in an increasingly competitive market environment.

Last month JAL unveiled a pre-tax loss of Y16.9bn ($173m) and a net loss of Y9.2bn for tha year to March.

The losses, which came in spite of a growing Japanese market for air travel and a 7 per cent increase in JAL's revenues to Y1,195.3bn, follow years of poor profitability and forced JAL to pass its dividend for the sixth consecutive year.

The airline was quickly punished for its disappointing performance, with a downgrading early this month from Moody's, the international credit rating agency, which warned that the company's poor cost structure was likely to continue to obstruct future profitability.

There is growing concern among investors that deregulation in the Japanese market, and further pressure from foreign carriers in the international market, mean that unless JAL can quicken the pace of its restructuring, the company may miss its chance to turn itself round.

However, Mr Akira Kondo, JAL president, appears unfazed. The carrier has a programme to expand its domestic network, cut costs and return to profitability, he points out.

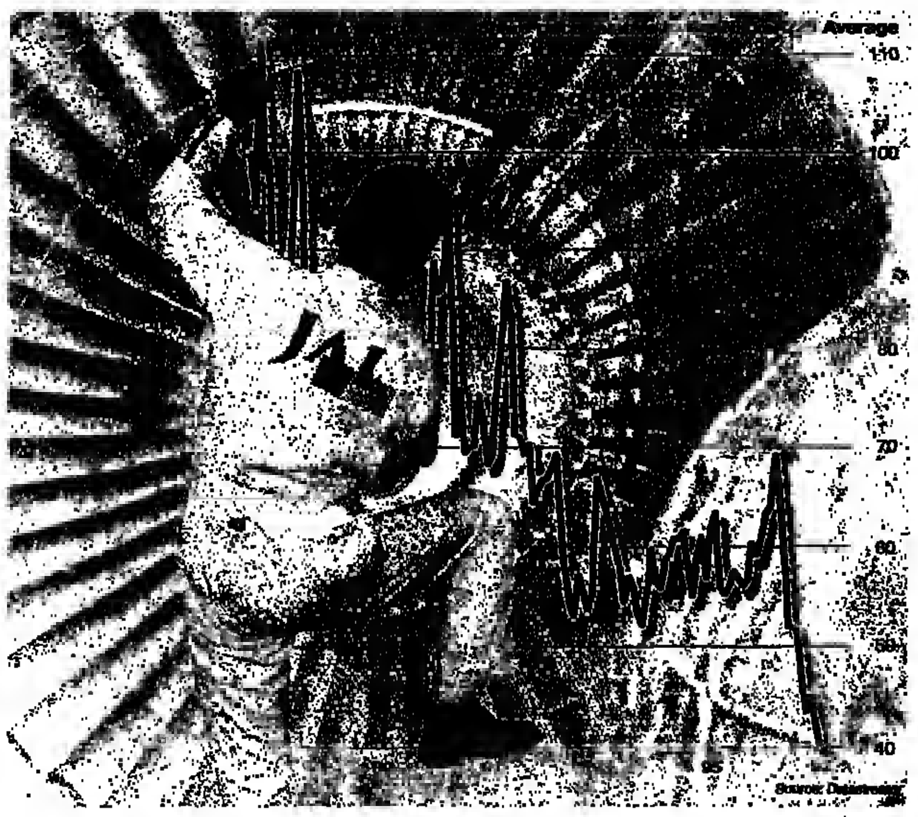
"The international market has become very difficult," Mr Kondo acknowledges. But the company has a strategy to support its international business by increasing routes in the fast-expanding Asian market, wbere the higher ratio of business travellers offers more attractive yields.

At the same time, JAL hopes to counter the competitive situation in the international market by strengthening its domestic operations. It hopes to expand its share of the domestic market from 25 per cent to 30 per cent.

JAL is taking steps to boost its domastic operations. A recently-introduced frequent-flyer scheme, and raffles in which passengers can win the wildly-popular "tamogotchi" virtual pet, have helped to improve loads. In March, domestic traffic went up 15.5 per cent year-on-year, the first time in two years that JAL had seen double-digit domestic growth. That firm performance was followed by a 13.1 per cent increase in April.

However, many analysts feel that JAL is being over-optimistic in its predictions for Asian routes in the international market and enhanced domestic services.

In the international market, the Asian rontes that JAL is eyeing are also the target of rival foreign carriers. US airlines, in particular, are intent on using their rights, enshrined in the 1952 US-Japan aviation agreement, to fly to Japan and from there to a third destination, mainly in the booming Asian market.



At the same time, as a result of the increased capacity at Tokyo's Narita airport, unit prices will fall again, putting further pressure on JAL's profitability, notes Mr Paul Smith, analyst at HSBC James Capel. "Unit prices are probably going to come down about 10 per cent," he says. For that reason, Mr Smith believes JAL has until 2000 to turn its business around.

JAL's plans to boost revenues from the domestic market, the third largest in the world after the US and Russia, also face obstacles.

Having started with fewer routes, JAL is at a disadvantage to the largest domestic carrier, All Nippon Airways, which has 50 per cent of the domestic market.

Additionally, the lack of slots at heavily-used airports – particularly at Haneda in Tokyo, and Itami in Osaka, which account for 80 per cent of the domestic market – has severely restricted JAL's ability to boost domestic revenues, Mr Kondo notes.

The emergence of new airlines in the domestic market, and the transport ministry's stated objective of encouraging competition, make it unlikely that JAL will get as many new slots as it wants.

In a recent allocation of new slots at Haneda, JAL received just 12, although it had applied for 26.

Against this background, the most pressing objective for JAL is to reduce its costs further and faster.

Costs are on the increase as JAL invests in aircraft to meet capacity expansion at Narita. There are also concerns that debt will soar in the near term, which will put further pressure on profits if interest rates rise, says Mr Laurent Del Grande, industry analyst at Dresdner Kleinwort Benson.

JAL points out that steps are being taken under the restructuring. The new aircraft will enable more efficient use of carriers and higher load factors.

Costs at Japan Air Charter, a subsidiary which employs foreign staff, are two-thirds lower than those of the parent company. Another subsidiary is being set up to cut domestic costs. JAL itself is on course to reduce its workforce by 5,000 to 17,000 by the end of this fiscal year.

JAL is also considering future strategic alliances with foreign carriers. This is essential for airlines to survive both in terms of marketing and costs, says Mr Kondo.

In the short term, however, investors will be wondering how much longer it will take the company to resume dividend payments.

Michiyo Nakamoto

Boral to float off natural gas distribution arm

By Nikki Tait

Boral, the Australian building materials and energy group, is to float off its natural gas distribution assets via a new company to be called Envestra.

It expects proceeds from the sale to exceed A$850m (US$639m), which it intends to use to cut debt.

Boral, which plans to take a 19.9 per cent stake in Envestra, will give its shareholders priority allocation in the float. It hopes to release a prospectus for the new company in mid-July, with the transaction being underwritten by Macquarie Bank and SBC Warburg Australia.

Boral substantially increased its exposure to Australia's gas market in 1993, when it bought the Adelaide-based Sagasco utility for about A$800m.

It has been forced to find a way of segregating its natural gas transportation and retailing assets as a result of the national "competition policy" reforms.

These require Boral to provide "open access" to its gas reticulation network and to stop its own operations benefiting from inside knowledge or favoured treatment. Last month, the company announced it was reviewing tha business and examining how it might "ring-fence" the reticulation assets. A flotation was one of the options mooted.

Under the current plan, Boral would continue to operate the Envestra assets, under a management contract which would be subject to regular benchmarking reviews.

Boral said it was "not clear" how many people Envestra might employ, but the figure is likely to be small.

On a pro forma basis, Boral said Envestra would have posted profits before interest and tax of A$39m in the current financial year. Tha company's extensive reticulation systems in Queensland and South Australia supply gas to about 380,000 customers.

Boral's energy division, however, is more broadly based, comprising both upstream and downstream assets as well as liquefied petroleum gas distribution in Australasia and the Pacific. Sales in 1995-96 were A$818m and profits before interest and tax were A$143m.

Both Standard & Poor's and Moody's confirmed Boral's debt ratings after the announcement.

Paribas denies it seeks control of Securities One

By Ted Bardacke in Bangkok and Andrew Jack in Paris

Securities One, the leading Thai stockbroker, yesterday claimed Paribas, the French investment bank, was in discussions about taking a controlling stake in the company.

However, Paribas in Paris last night denied it was interested in increasing its stake. It said: "There is no project of this type under discussion."

Paribas has been picking up some pieces of the collapsing financial empire of Finance One, which was once Thailand's largest finance company and which owns 21.6 per cent of Securities One. Paribas is thought to have a 6.9 per cent stake in Finance One.

Last week, it finalised the deal for taking control of Asia Equities, as part of a strategy over recent months of building up its presence in the region.

Mr Chumpol Phornprapha, chairman of Securities One, said Paribas had proposed buying up to 49 per cent of the Thai company, the maximum allowed under Thai law. He said pricing had not been discussed, nor whether the stake would be purchased partly from Finance One, or through a tender offer on the open market.

It is not known whether Paribas reduced its stake in Finance One when shares of the cash-strapped company resumed trading in May. The shares had been suspended for three months while Finance One tried to negotiate a merger with Thai Danu Bank, a small commercial bank. That deal was eventually called off and shares in Finance One have fallen 77 per cent since then.

Thailand's central bank is poised to become the largest shareholder in Finance One later this month, via a subscription to a mandatory rights issue. Finance One executives have said that they plan to sell off many poorly performing assets in an attempt to rescue the company.

A number of Thai brokers, caught in an industry where profits declined 11 per cent last year, have taken on foreign partners, who see the fall in their share prices as an opportunity to gain access to a stock market seat and other trading infrastructure in Thailand.

Analysts said Paribas was likely to have the first opportunity to buy any of Finance One's affiliates, because it has been privy to the details of operating performance via its representation on the Finance One board.

Paribas already has banking operations in Hong Kong, Singapore and a number of other Asian countries.

ASIA-PACIFIC NEWS DIGEST

Benpres unit plans cable telephony

Sky Vision, the cable television subsidiary of Benpres, the Philippine utility and infrastructure conglomerate, is planning to offer telephone services through its cable network.

Mr Eugenio Lopez, president of Sky Vision, said he planned to launch cable telephony within the year to boost revenues. With 200,000 subscribers representing more than 40 per cent of market share, the group is already the Philippines' leading cable television operator with Sky Cable. It plans an initial public offering later this year. Benpres has interests in broadcasting, banking, power, water, infrastructure, property and telecoms.

Sky Vision's planned move may encounter difficulties under current regulations. It also poses a challenge to the government's telecoms policy, which has been to carve up the country into different service areas which are then bid for and assigned to different telecoms groups.

"We won't proceed if we're not sure the rules will allow us to do this," said Mr Manuel Lopez, director for programming. *Justin Marozzi, Manila*

BHP assigns Vietnam oil stake

BHP, the Australian resources group, has formally assigned its 43.75 per cent equity interest in Vietnam's Dai Hung oil field to Petronas, the Malaysian state-run oil group. The deal was finalised four months ago and will be effective from December 1 last year. However, formal ratification of the transfer by the Vietnamese government is still required, and this is "expected shortly".

The Dai Hung field was once thought to have recoverable reserves of around 700m barrels, but this was revised to perhaps 100m barrels and 120bn cubic feet of gas. BHP took a A$151m (US$113.5m) write-off for the residual value of its investment in the field last year, after failing to win approval from the Vietnamese authorities for a change in the taxation arrangements governing the project.

Petronas already bolds a 20 per cent interest in the Dai Hung project. *Nikki Tait, Sydney*

China group seeks HK$2.27bn

Beijing Yanhua Petrochemical is seeking up to HK$2.27bn (US$293m) through an issue of H-shares, the name given to the stock of China enterprises listed on the Hong Kong stock exchange.

The company, whose products include resins and plastics, basic organic chemicals and synthetic rubber, is offering 1.01bn H-shares at a price range of between HK$1.68 and HK$2.25. The global sale represents 30 per cent of the company's enlarged share capital. China petrochemical companies already listed in Hong Kong, including Shanghai Petrochemical and Jilin Chemical, have not always inspired shareholders with their profits performance and weaker sentiment on the sector is likely to cloud Yanhua's take-up prospects, analysts said. *Louise Lucas, Hong Kong*

Tamagotchi released on PC

Tamagotchi, the digital chicken which has become Japanese toy industry's latest marketing success, was yesterday released on personal computer.

Bandai, the toymaker which invented the original Tamagotchi, has produced a Japanese-only CD-Rom version for use with Windows 95, to be followed next month by a Macintosh equivalent. Bandai is developing an English version, but has yet to decide a date for export. As in the original pocket game, the player hatches an egg on screen and then has to care for the chick, using buttons to feed, clean, discipline and play with it. Since its launch late last year, Tamagotchi has so far exceeded Bandai's expectations that the company has been unable to keep up with demand.

The computer version is more expensive, at Y2,800, than the original plastic egg, which officially retails at just under Y2,000. On the black market it fetches many times the recommended price. For the slightly higher price, the computer Tamagotchi comes in colour, can be given a name and can be fed automatically while its owner is away from the screen. *William Dawkins, Tokyo*

Westmont in power plant deal

Westmont, the Malaysian group, has signed an agreement with the government of Bangladesh to set up a barge-mounted power plant in the country on a build, own and operate basis at the cost of about US$100m.

Westmont is the latest of a number of international companies, including Enron, the US group, to sign almost identical agreements in the past three weeks to set up a total of four barge-mounted power plants of 100MW capacity each. The deal brings to $500m tha total direct investment by the companies in Bangladesb's power sector.

Westmont will sell electricity to the government for a period of 15 years at the initial rate of five cents per kilowatt-hour – a rate which is expected to be lowered further in 1999, when the plant will begin to use gas as fuel. Negotiations with the power companies started only in April after the government was propelled into action by a power shortage crisis which had led to frequent power cuts throughout the country.

Next month, negotiations are expected to begin with a number of international companies for three fixed power plants of 300MW capacity each. Japan's Marubeni, Asea Brown Boveri, the Swiss-Swedish group, and Midland Power of the UK are among the companies short-listed for negotiations. Hyundai, the Japanese group, is also understood to have made an unsolicited proposal for a 300MW power plant. *Kasra Naji, Dhaka*

Air NZ sells catering unit

Air New Zealand has sold its in-flight catering business to US-based SC International Services. SCIS is the world's largest in-flight caterer, operating through two subsidiaries, Sky Chefs and Caterair International. Air New Zealand announced last week it would make 396 staff redundant from its catering operations, pending conclusion of the sale. The companies did not reveal details of the sale. *AP-DJ, Wellington*

Nan Shan deal signals upturn

Nan Shan Life, Taiwan's second-biggest insurance concern and an affiliate of AIG, the US insurer, yesterday bought a parcel of land at a price well above expectations, signalling a recovery in Taiwan's property market. Taiwan's finance ministry auctioned the 42,552 sq ft plot of government land in Taipei's Hsinyi commercial district, the largest plot of land to be sold by the government in a decade. Competing against seven other bidders, Nan Shan's winning bid was T$2.72bn (US$97.5m), 40 per cent higher than the government's base price.

Taiwan's property market has been in a slump since peaking in 1989. Recent strong economic indicators and rising land sales indicate the market may hava begun a gradual recovery, analysts say. *Laura Tyson, Taipei*

Losses grow at Thai builder

Christiani and Nielsen, the Thai construction group, said its first-quarter earnings were depressed by the current economic slowdown. Its quarterly loss rose from Bt172m a year ago to Bt231m ($9m). "The downward trend resulted in fewer new construction projects than expected for the company. Meanwhile, the economic downturn is causing a major halt in construction spending in both the public and private sectors," it said. *AFX-Asia, Bangkok*

THE GERMAN PFANDBRIEF

Progress Report for Investors

Adding liquidity to Europe's biggest bond market

Jumbo Pfandbrief market surging ahead at home and abroad

*H*istorically, issuers of Pfandbriefe have benefited from a highly receptive local market, with German institutional and retail investors both familiar and comfortable with an investment product which has always combined the pinnacle of security with a healthy yield pick-up over the main alternative in the domestic market, the German government bond – Bund – sector.

Over the course of the last five years, however, Pfandbrief issuers have increasingly come to recognize that they will ultimately be able to reduce their borrowing costs by cultivating a more diversified investor base beyond Germany's borders. In tandem, they have also recognized that if global institutional investors are to be attracted to the Pfandbrief market over the long term, enhanced liquidity would need to be injected into a sector which has traditionally been the domain of local buy-and-hold investors.

A giant leap in innovation

In May 1995, the launch of Germany's first so-called "Jumbo" Pfandbrief issue of DM 1 billion took place. This compared with standard issue sizes in the traditional market of between DM 50 and DM 300 million which were considered too small to be of genuine interest to international institutions – which was the main reason explaining why historically international investors accounted for ownership of only around 10% of the Pfandbrief market, compared to well over 40% of Bunds.

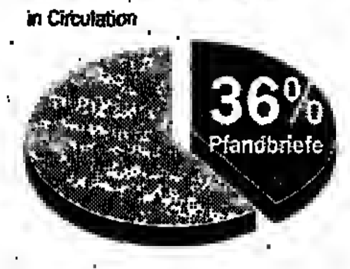
The launch of the first Jumbo opened the floodgates for a cascade of other similar issues, many of which have been much larger than DM 1 billion. On September 16, 1996 an important milestone was passed when the Jumbo market broke through the DM 100 billion mark much earlier than most analysts had expected, and by the end of 1996 the total outstanding volume had reached DM 121.7 billion. Over the first quarter of 1997 the market has not paused for breath, with a further DM 28.6 billion issued between January and March, lifting the total outstanding volume to over DM 150 billion. Conservative analysts expect further substantial rises over the remainder of the year, with the Association of German Mortgage Banks expecting the size of the sector to surpass DM 230 billion by the end of 1997.

Aside from the spectacular increase in volume in the Jumbo Pfandbrief sector in 1996, a number of other key developments also contributed to the growing maturity and sophistication of the sector. One of these was the drawing up of a paper for all issuers clearly stipulating the definition of a Jumbo Pfandbrief and adding a number of recommendations to Pfandbrief issuers aimed at further harmonization of the sector. This paper determined that in order to qualify for Jumbo status an issue must be worth at least DM 1 billion at launch, although smaller volumes (at least DM 250 million) are permissible for re-openings. Additionally, only straight Pfandbriefe – carrying a fixed coupon payable annually in arrears and with a bullet redemption may be sold as Jumbo Pfandbriefe. Third, to enhance most important, in terms of liquidity, issuers of Jumbo Pfandbriefe must secure at least three market makers to quote two-way prices for the issue during usual trading hours.

The six recommendations drawn up at the same time for Jumbo Pfandbrief issuers are mainly technical guidelines aimed at bolstering and maintaining liquidity in the sector. The sixth recommendation, however, is that an issuer should take measures to facilitate the international placement of Jumbo Pfandbriefe. Several issuers of Jumbos have secured investment grade ratings for their paper assigned by internationally recognized rating agencies, without which a number of institutions outside Germany – particularly in the US – would be technically prohibited from buying their Pfandbriefe.

The German Bond Market
Year-end 1996

Market Share of Pfandbriefe in Circulation



DM 4.0 TRILLION

The result has been a change in the attitudes of Pfandbrief issuers towards ratings. At the end of 1995 only two issuers had ratings for their Pfandbriefe. By the end of 1996 this total had increased to eight, with 48.7% of all outstanding Jumbo Pfandbriefe assigned with investment ratings.

Taking the Pfandbrief abroad

The rapid evolution of the Jumbo market has led to a dramatic increase in foreign participation at the primary level. In 1996, for the first time, a number of Public Pfandbrief issues were tailored specifically to international demand. In January, DePfa-Bank made significant headway in furthering international participation in the market when it launched the first-ever global Pfandbrief with a DM 2 billion seven-year bond. The reception to this issue was so strong that DePfa returned to the market a week later with a DM 1.5 billion five-year issue.

After Rheinische Hypothekenbank had issued a DM 2 billion global in June, DePfa launched the first-ever Euro-Asian Pfandbrief, with a DM 1 billion five-year issue listed on the Singapore Stock Exchange. These initiatives have led to a dramatic increase in the share of Pfandbriefe held by non-German investors, with estimates published early in 1997 suggesting that international accounts now hold up to 25% of all outstanding Jumbo Pfandbriefe, and this percentage has been rising considerably as the sector grows.

Not to be overlooked is the promising future for the German Pfandbrief in the context of the planned European Monetary Union. Across Europe, recognition of the Pfandbrief as an attractive fixed-income investment is growing steadily and innovative steps to accelerate this process are being taken: for example, Frankfurter Hypothekenbank Centralboden recently launched a French franc-denominated Pfandbrief issue totaling FF2 billion.

While the development and rapid expansion and internationalization of the Jumbo Pfandbrief market has dominated most international media coverage of the sector, it is important not to overlook the significance of the so-called "traditional" Pfandbrief issues in circulation. This traditional sector still accounts for some DM1.3 trillion and is made up of almost 16,000 issues. Many investors – especially those who intend to hold their paper until maturity – continue to have a preference for such Pfandbriefe which offer a higher yield pick-up over government bonds than the new Jumbos. Depending on the maturity of the issue concerned, this pick-up can be as high as 50 basis points over Bunds, whereas in the Jumbo sector yield pick-ups have been closer to 15 basis points over the Government curve.

Investors can plot the performance of both the traditional and the new Jumbo Pfandbriefe through the range of tracking indices which have been established over the last two years.

Jumbo Pfandbrief Issuers
As of March 31, 1997

Issuer	No. of issues	Total volume DM million	Share %	Average issue size DM million
1. DePfa-Bank	11	22,500	14.31	2,045
2. Hypothekenbank in Essen	10	18,500	11.77	1,850
3. Allgemeine Hypothekenbank	12	17,750	11.29	1,479
4. Rheinische Hypothekenbank	9	14,500	9.22	1,611
5. Deutsche Hypothekenbank Frankfurt	7	9,750	6.20	1,393
6. Frankfurter Hypothekenbank Centralboden	6	8,500	5.41	1,417
7. Württembergische Hypothekenbank	6	7,500	4.77	1,250
8. Westfälische Hypothekenbank	5	7,500	4.77	1,500
9. Westdeutsche Landesbank	4	7,500	4.77	1,875
10. Bayerische Vereinsbank	5	6,500	4.13	1,300
11. DG Hyp	4	5,500	3.50	1,375
12. Berlin-Hannoversche Hypothekenbank	3	5,000	3.18	1,667
13. Landesbank Sachsen	4	4,500	2.86	1,125
14. Hypo-Bank	3	4,500	2.86	1,500
15. Norddeutsche Landesbank	2	3,600	2.29	1,800
16. Bayerische Landesbank	2	3,100	1.97	1,550
17. Nürnberger Hypothekenbank	3	3,000	1.91	1,000
18. Hypothekenbank in Hamburg	2	3,000	1.91	1,500
19. Deutsche Hypothekenbank Hannover	2	2,500	1.59	1,250
20. Bayerische Handelsbank	1	1,000	0.64	1,000
21. Süddeutsche Bodencreditbank	1	1,000	0.64	1,000
Total Jumbo Pfandbrief Market	102	157,200	100.0	1,541

High Asset Quality of the German Pfandbrief

*O*ne of the principal attractions of the German Pfandbrief is the deeply embedded security which backs the asset and the critical differences between Pfandbriefe and the mortgage-backed securities which are familiar to investors in, say, the US. As a research document published recently by Salomon Brothers rightly points out, "there are more differences than similarities between these instruments."

The most important of these differences is in the Pfandbrief market: no bond is ever secured against any individual loan per se. Instead, the collateral backing the Pfandbriefe is a large and separately registered pool of loans. These can either take the form of loans to the public sector, in the case of Public Pfandbriefe – which are backed by the tax-raising power of the government – or first mortgages on residential or commercial properties, in the case of Mortgage Pfandbriefe. A further in-built security mechanism which distinguishes Pfandbriefe from mortgage-backed bonds in other markets is that no mortgage eligible as collateral is ever allowed to exceed 60% of its prudently assessed lending value.

Unsurpassed safety record

In this context, the Association of German Mortgage Banks has created Hyp Zert GmbH to meet the newly established European norm (EN 45013) for certifying the expertise of appraisers. The quality of the certification procedure of Hyp Zert GmbH has also been acknowledged by the London-based Royal Institution of Chartered Surveyors.

The strictness of the legal framework which governs the Pfandbrief market aside, however, the clearest evidence of the rock-solid creditworthiness of the instrument is that Germany has not seen a single non-performing Pfandbrief since the introduction of the Mortgage Bank Act of 1900.

In addition to the legally enforced security mechanisms which protect holders of German Mortgage Pfandbriefe, the structure and track record of the German property market offer additional comfort to investors. The structure of the market is unusual in comparison to most other European real estate sectors, because it is highly decentralized, meaning that a downturn in the market in one region does not automatically presage a similar fall in others.

Mortgage banks set new standards in 1996

Strong progress across the board

*I*n 1996, Germany's mortgage banks enjoyed another strong year, establishing a new record for the volume of new commitments made during the year. In total, these commitments expanded from DM 247.9 billion to DM 279.7 billion, an increase of 12.8%. To put this total into perspective, it was more than four times the size of the volume of new commitments made in 1987.

Progress during 1996 was made across the board, with new commitments for public-sector lending growing by 12.3% to DM 183.7 billion, and advances for mortgage loans expanding by 14% to DM 96 billion. Nor was the expansion limited purely to the German market. With European financial and monetary integration drawing nearer, and with German banks gearing up to play a very active role in the "new" European Union, the mortgage banks more than doubled their lending to other EU states, making commitments outside Germany of DM 5.9 billion, compared to DM 2.4 billion in 1995.

Over the first quarter of 1997, there were no signs of a let-up in the lending activities of the German mortgage banks. On the contrary, total new lending business between January and the end of March rose by almost 20%, with public-sector lending growing by more than 29%, which more than compensated for a decline in mortgage lending of 2.9% which reflected the general slowdown in the German economy. On balance, however, lending volumes in 1997 are expected to be similar to 1996's total, with public-sector lending expanding briskly.

Positive outlook for 1997

This growth in lending volumes suggests that in 1997 fresh records will be chalked up in the market for German Pfandbriefe. In 1996, Pfandbrief issuers placed a total of DM 358.5 billion of new bonds to refinance their lending activities, a 10% increase over 1995's total which had established a record. Once again, this meant that Pfandbrief issuers comfortably accounted for the largest share of primary market activity in the German fixed-income market in 1996, accounting for 44% of gross domestic bond issuance. Of this total DM 288 billion was accounted for by Public Pfandbriefe representing 36% of total new issuance volume, with the balance of DM 53 billion 18% of the total) contributed by Mortgage Pfandbriefe.

Sales of Pfandbriefe have continued to post healthy levels of growth this year, with total issuance volume in the first quarter of 1997 of just under DM 80 billion. Issues of Public Pfandbriefe continued to account for the lion's share – 75% – of this total.

This robust level of issuance in the primary market has helped the Pfandbrief to consolidate its position not just as the largest component of the German bond market but also as the largest individual bond market in Europe. At the end of 1996, outstanding Pfandbriefe totalled DM 1,431 billion, compared with a total at the end of 1995 of DM 1,258 billion.

Germany's Mortgage Banks in Perspective
Year-end 1996

	Total Germany DM billion	Mortgage Banks DM billion	Market Share %
ISSUING			
Domestic bonds outstanding	3,503.4	951.6	27.2
Domestic bank bonds outstanding	2,196.1	951.6	43.3
Pfandbriefe outstanding	1,430.9	872.2	61.0
LENDING			
Residential property	1,433.7	331.4	23.1
Commercial real estate	340.1	179.6	52.8
Federal, state, municipal governments	831.3	391.8	47.1

GERMANY'S MORTGAGE BANKS

- DEPFA-BANK, WIESBADEN
- BAYERISCHE VEREINSBANK AG, MÜNCHEN
- HYPO-BANK, MÜNCHEN
- FRANKFURTER HYPOTHEKENBANK CENTRALBODEN AG, FRANKFURT
- DEUTSCHE HYP, FRANKFURT
- RHEINHYP, FRANKFURT
- BERLIN-HANNOVERSCHE HYPOTHEKENBANK AG, BERLIN AND HANNOVER
- DEUTSCHE GENOSSENSCHAFTS-HYPOTHEKENBANK AG, HAMBURG
- BAYERISCHE HANDELSBANK AG, MÜNCHEN
- WESTHYP, DORTMUND
- HYPOTHEKENBANK IN ESSEN AG, ESSEN
- HAMBURGHYP, HAMBURG
- ALLGEMEINE HYPOTHEKENBANK AG, FRANKFURT
- WÜRTTEMBERGER HYPO, STUTTGART
- SÜDDEUTSCHE BODENCREDITBANK AG, MÜNCHEN
- MÜNCHENER HYPOTHEKENBANK EG, MÜNCHEN
- NÜRNBERGER HYPOTHEKENBANK, NÜRNBERG
- DEUTSCHE HYPOTHEKENBANK (ACT.-GES.), HANNOVER
- RHEINBODEN HYPOTHEKENBANK AG, KÖLN
- CLF HYPOTHEKENBANKBERLIN AG, BERLIN
- NORDHYPO BANK, HAMBURG
- LÜBECKER HYPOTHEKENBANK AG, LÜBECK
- SCHLESWIG-HOLSTEINISCHE LANDSCHAFT HYPOTHEKENBANK AG, KIEL
- BFG HYPOTHEKENBANK AG, FRANKFURT
- WL-BANK, MÜNSTER
- WÜSTENROT HYPOTHEKENBANK AKTIENGESELLSCHAFT, LUDWIGSBURG
- M.M. WARBURG & CO HYPOTHEKENBANK AG, HAMBURG

For further information about German Pfandbriefe please contact: Association of German Mortgage Banks (VDH) Bonn, Germany, Fax (+228) 9 59 02 44

Eurotunnel banks consider new operator

By Andrew Jack in Paris

Eurotunnel's creditor banks are likely to push swiftly for the right of "substitution", which would render shares in the company worthless, if investors next month refuse to endorse the restructuring plan under discussion.

The banks fear that a vote against the plan would push the company into the hands of a French bankruptcy judge and bring to an end the "standstill" on interest payments on junior debt announced in 1995.

To avoid the legal uncertainties triggered by insolvency procedures spanning English and French law, the banks are prepared to push for their right to "substitute", or appoint another company to operate the Channel tunnel link in the place of Eurotunnel.

The different scenarios are being discussed in a series of "roadshows" for the 174 creditor banks, as the largest lenders attempt to win the support of the smaller banks to achiavs the unanimous agreement required for the plan to proceed.

Meetings have already taken place in London and Paris, and are scheduled for Frankfurt today and Milan on Friday. Further discussions with lenders will take place in the coming days in New York and Tokyo.

The discussions come as Eurotunnel shareholders consider the details in the restructuring prospectus issued last month, on which they will be asked to vote on July 10 at an extraordinary general meeting.

Ms Sophie L'Hélias, bead of Franklin Global Investor Services, a corporate governance consultancy based in Paris, revealed at the weekend thet she plans to vote against the restructuring and holds nearly 37m shares – about 4 per cent of the total – through a Bermuda-based fund.

Adacte, a radical group of Eurotunnel shareholders which has recently started legal action against the company alleging false information, also said it intended to vote against the plan. The more moderate Association of Eurotunnel Shareholders has yet to decide.

At Eurotunnel's annual meeting last year, 48m shareholders out of 175m expressing an opinion voted against the company on several resolutions.

However, it is less clear whether Ms L'Hélias will be able to amass the same number of votes this year, given investors' fears that blocking the plan could force Eurotunnel into administration, leaving them nothing.

Equally, the extraordinary meeting scheduled for July requires the voters for at least 25 per cent of the 920m shares to be present to achieve a quorum. At last year's meeting, only 19 per cent were represented.

Agnellis reinvent the Italian holding company

Recent deals have transformed Ifi and Ifil into outward-looking European investment vehicles

The holding company, whether private or government controlled, is one of the most common characteristics of Italian capitalism.

To Anglo-Saxon minds, they appear unnecessarily complicated and opaque, strange creatures of an archaic financial system whose minority shareholders never seem to know quite what they are doing.

"Their basic raison d'etre," explains a Milan investment banker, "was to enable families to control large industrial and financial enterprises with the minimum amount of capital".

But something is changing in the passive world of Italian holding groups. In recent months, they have been unusually active, buying, disposing of or merging assets to simplify their structures and give greater focus to their investment portfolios. And few have been as busy as Ifi and Ifil, the two quoted holding companies of the Agnelli family.

The two are run by Mr Umberto Agnelli, the younger brother of Giovanni, the Fiat patriarch, and Mr Gabriele Galateri di Genola, one of the new stars of Italian finance. With a staff of no more than 50, the two have turned the Agnelli holding groups into outward-looking European investment vehicles designed to build on Fiat assets with stakes in sectors in which the Agnelli group was not present.

Barely 10 years ago, Ifil had a stake of about 7 per cent in Fiat and about L200bn ($117.18m) to invest. Today, it has 13.5 per cent of Fiat but also a broad portfolio of diversified investments, many in France; consolidated net assets of more than L8,640bn; and net profits that have steadily risen to reach L339bn last year.

Following recent deals involving its retailing, cement and food interests, it will have some L1,500bn –L2,000bn over the next two years to invest.

Ifi, too, has wasted little time. Its main assets are its 18 per cent stake in Fiat and its controlling stake in Ifil. But it also owns about 25 per cent of the quoted bolding company Exor – with interests ranging from Club Med to Chateau Margaux – and, since the beginning of this year, full control of the Juventus football club.

Mr Umberto Agnelli insists that although "everything seems to have come together all at once", the groups' recent operations had been in the pipeline for some time.

First came Ifi and Ifil's joint 5 per cent investment in the new core of stable shareholders of Istituto San Paolo di Torino, Italy's largest banking group, which has just been privatised.

Then, there was the alliance between Rinascente, the Italian retailer controlled by Ifil, with Auchan, the privately-owned Frencb supermarket chain.

A few days later came another partnership between Ifil's Unicem cement subsidiary with the Italian Fratelli Buzzi group, which could eventually see Buzzi acquire control of Unicem.

There could be other moves. Ifil owns a large stake in the French Worms & Cie-Saint Louis sugar, paper and insurance group. It would like to see the French group adopt an active industrial strategy, keeping in mind the high price which insurance companies are fetching on the market as a result of the current scramble for consolidation in the European insurance industry.

The Italian group is also a shareholder in the French BSN-Danone food group, which still requires strengthening in certain sectors and which is also seen as a potential takeover target.

Umberto Agnelli (left) and Gabriele Galateri di Genola: creating outward-looking European investment vehicles with stakes in sectors in which the Agnelli group was not present

The San Paolo investment not only reflects the Agnellis' decision to support "the biggest bank in town" – both San Paolo and the Agnellis are based in Turin – but also a longer-term interest to see San Paolo develop strategic partnerships with other banking groups. In turn, this could belp the Agnellis diversify their Italian banking interests, which have traditionally been entrenched with Mediobanca, the Milan-based investment bank.

Mr Agnelli says that most of Ifil's investments are in companies in promising sectors but lacking the size to compete globally. Hence, the retailing alliance with Anchan and the cement deal. He also sees the holding companies playing an increasingly active role in helping their industrial investments develop and achieve the necessary competitive scale.

This role is now likely to intensify. Mr Agnelli and Mr Galateri are already looking for ways to deploy their growing cash resources. They make no secret of their interest in telecommunications, and are considering joining Deutsche Telekom and the state-controlled Enel utility in a consortium to bid for the licence to operate a telecoms network in competition to Telecom Italia once its monopoly is dismantled.

Energy, technology and utilities are also sectors in which the Agnelli holdings could make a move, as well as possibly increasing their interests in the leisure and entertainment industry.

In recent months there has been speculation over a possible listing of Juventus, whose finances and fortunes on the football pitch have been turned round since Mr Umberto Agnelli took overall responsibility for the club.

Although it has just won the Italian first division title for the 24th time and has a large international following, the Agnellis have suggested the time was not ripe for flotation. But they are exploring the possibility of building a sports entertainment group around Juventus and then seeking a listing.

That, together with the possibility of Fiat listing Ferrari – which is now also absorbing Maserati – would ensure the Agnelli's place in the international financial glamour stakes. And the sleeping Italian holding group would have completed its transformation into a financial sex symbol.

Paul Betts

Fiat up 6.7% in quarter and optimistic on year

By Paul Betts in Milan

Fiat, Italy's largest private-sector company, yesterday reported a 6.7 per cent rise in first-quarter consolidated pre-tax earnings to L495bn ($290m).

Group sales were up 4.4 per cent at L20,844bn.

The group bas benefited this year from government incentives to encourage new car sales in Italy. Tbese lifted domestic demand by more than 20 per cent in March, by more than 50 per cent in April and nearly 45 per cent in May, Mr Cesare Romiti, Fiat chairman, told the annual meeting in Turin.

Mr Romiti said group sales were expected to rise 15 per cent this year, from L77,900bn in 1996 to abont L90,000bn. Car revennes were forecast to grow by L9,000bn, or 21 per cent, while revenues from the New Holland farm machinery subsidiary would rise by L1,500bn, or 16 per cent. Iveco truck sales were expected to improve by L800bn, or 8 per cent.

He said operating income was also forecast to grow strongly this year, while pre-tax earnings would be in line with last year's L3,805bn despite the absence of extraordinary gains.

These improvements would be reflected in the group's net financial position, which was expected to be positive at the end of this year, according to Mr Romiti, who also confirmed he would step down as chairman next June, at the age of 75.

He said tbat there were no plans for a capital increase.

In 1996, Fiat's profits were belped by L1,400bn of extraordinary gains from the flotation of a 31 per cent stake in New Holland and the sale of the Prime fund management group to Assicurazioni Generali.

The group's unit car sales rose 8.2 per cent in the first five months of this year to 1.12m vebicles, with a 21 per cent increase in Italy reflecting the introduction of the government incentives.

Car sales in Brazil rose 18 per cent during this period, while in Poland they climbed 11 per cent. However, car sales in western Europe excluding Italy fell 18 per cent.

Despite this fall, Mr Romiti said Fiat had seen its European market sbare rise to 12.6 per cent during the first five months.

The Italian group was now second only to Volkswagen among European carmakers, compared with fifth place at the end of last year.

EUROPEAN NEWS DIGEST

Adig structure faces shake-up

Commerzbank and Bayerische Vereinsbank will hold preliminary talks tomorrow on possible changes in the ownership structure of Adig, Germany's fourth-largest fund management group, in which each bank has a 43 per cent stake. Adig has total funds under management of DM49bn ($28.2bn). Its main competitors are DWS (owned by Deutsche Bank), Deka (which operates funds for the savings bank movement) and DIT (Dresdner Bank).

Analysts said control of Adig would be in the interests of both Commerzbank and Vereinsbank, but declined to speculate on which way a decision could go. Another possibility would be to split Adig's activities between the banks. The talks, between main board directors of both banks, come at a time of increasing activity among German mutual fund companies, which see new business opportunities through increasing public awareness of the need to make private provision for pension and other needs. Deka last week announced agreements with J. P. Morgan of the US to develop specialised international funds and with Lombard Odier, the Swiss private bank, on portfolio management for wealthier clients.

Andrew Fisher, Frankfurt

Sabena on track with cuts

Sabena, the Belgian airline 49 per cent owned by Swissair, is on course to meet cost-cutting targets for this year designed to return it to profit next year, Mr Paul Reutlinger, chief executive, said yesterday.

Swissair, which wrote down the value of its $210m investment in the Belgian carrier to zero in April, has threatened to withdraw from Sabena completely if it does not meet its budget for the first half of 1997. The airline has been dogged this year by the rumours that it was about to be abandoned by the Swiss group.

But Mr Reutlinger said yesterday that although the airline would still make a loss for 1997, it was on track to achieve its cost-cutting aims. "The first four months of this year conformed with the budget," he said. "Advance bookings for summer and autumn are looking good. Our goal is to be in budget conformity at the end of the year – we think we can reach it."

Swissair-appointed Mr Reutlinger reached agreement with Sabena's unions last year on restructuring aimed at making annual savings of BFr4.7bn ($131m) by next year, enough to return the airline to profit, and BFr6.7bn savings by 2000.

Some BFr2bn of the savings by 1998 are to come from the workforce, through flexible working and early retirement for 700 staff, with the rest to be achieved by management through operational improvements.

Mr Reutlinger said Sabena's co-operation with Mr Richard Branson's cut-price Virgin Express on Brussels-Heathrow routes had produced "very positive" results. However, be ruled out further co-operation with Virgin Express which, be said, was not permitted by the agreement Sabena signed with unions last year.

Mr Reutlinger confirmed Sabena was still seeking ways of paying its air crews outside Belgium to avoid Belgian tax and high social costs, but had not yet reached agreement with the government. *Neil Buckley, Brussels*

Pechiney lifts Techpack stake

Pechiney, the French aluminium and packaging group, is to more than double its stake in Financière Techpack, the parent company of Techpack International, the deluxe cosmetics packaging specialist.

The company is lifting its Techpack interest to 80 per cent by buying a 41 per cent bolding until now in the bands of investment funds. Pricing details were not disclosed. The remaining 20 per cent is beld by management.

The consolidation of Techpack into Pechiney's accounts from June 30 will result in an increase in the group's net financial debt of about FFr1.4bn ($239m). Techpack has annual turnover of nearly FFr2bn and operating profits of some FFr150m. *David Owen, Paris*

Danish lenders end alliance

BG Bank, Denmark's fourth ranking commercial bank, and Nykredit, the large bond-issuing mortgage credit company, have agreed to break off a strategic alliance, entered into two years ago. An alliance between the bank and insurer Topdanmark, the third leg in the original plan, will continue, said BG Bank.

It is understood that a clash of interest between Nykredit and BG Bank arose over competition for customers, which made the alliance unworkable.

Hilary Barnes, Copenhagen

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EUROPEAN NEWS DIGEST

BBV faces fines over share deals

Spain's Banco Bilbao Vizcaya faces fines of Pta85m ($583,000) and a public reprimand for share purchases made last autumn in the Sevillana de Electricidad power company, at a time when the state-controlled Endesa was preparing to bid for majority control. The CNMV securities commission said the penalty marked the first action of its kind in Spain against a leading financial group for failing to maintain "Chinese walls" between different parts of its operations.

The commission opened its inquiry into BBV's involvement last month, when it imposed a Pta300m fine on Endesa for providing misleading information about its intentions with regard to Sevillana and the Catalan power company Fecsa, in both of which it now has 75 per cent control. BBV's operation is understood to have involved about 1m Sevillana shares. The bank, said by the commission to have made gross profit of Pta35m on the operation, has also been banned for a year from making purchases of shares in listed companies through third parties unless it informs the commission beforehand. However, the commission absolved Mr Javier Echenique, a general manager of BBV, from personal responsibility for the misuse of confidential information in the share operation.

Endesa announced its Pta200bn bid to raise its holding in the two regional companies last October, a week after telling the CNMV it had no such intention. BBV denied having had any prior information about Endesa's plans and said it had acted according to the rules.

David White, Madrid

MGAM sells SinterCast stake

Morgan Grenfell Asset Management, the UK fund management group, yesterday sold its entire holding in SinterCast, a Swedish components developer in which Mr Peter Young, the disgraced Morgan Grenfell fund manager, invested heavily. SinterCast was one of several obscure Scandinavian high-technology stocks favoured by Mr Young, who was dismissed by Morgan Grenfell last September after the company incurred large losses through unauthorised investments.

The sale of a 40 per cent stake depressed SinterCast's shares, with the most-traded A shares closing down SKr33.50 at SKr109. This compares with a price of SKr480 a year ago, before the Young scandal became public. Deutsche Bank, Morgan Grenfell's German parent, retains a 23 per cent equity stake in SinterCast through four subsidiaries.

Greg McIvor, Stockholm

Ford to lift Czech investment

Ford Motor of the US said yesterday it would invest an additional $50m in Autopal, its wholly-owned subsidiary in the Czech Republic, to produce lighting systems for Escort class vehicles. The new investment will expand production to include headlight and tail-light products for Ford vehicles. Autopal already supplies a range of automotive components for Ford plants in France and Mexico, and also to other vehicle makers.

The expansion takes Ford's total investment in Autopal, which it bought in 1993, to more than $100m.

Vincent Boland, Prague

Fourth listing for Neuer Markt

Germany's fledgling stock market for fast-growing innovative companies – the Frankfurt-based Neuer Markt – is set to receive a new listing with the issue of up to DM90m ($51.8m) in shares in Beta Systems Software, a management software company. Deutsche Morgan Grenfell, the investment banking unit of Deutsche Bank, said yesterday the price range for the Beta shares had been fixed at between DM85 and DM100 under the bookbuilding process. This would put the issue volume at between DM76m and DM90m.

Beta is the fourth company to be listed on the Neuer Markt. Goldman Sachs of the US and Sal. Oppenheim, the German private bank are also in the issuing consortium.

Andrew Fisher, Frankfurt

German group in Hungary move

The German utility consortium of RWE Energie and EV Schwaben yesterday unveiled plans for investments totalling Ft325bn ($1.75bn) in the Hungarian power sector. The consortium plans to modernise 600MW of capacity in the Matra power station, 70km west of Budapest, and extend the local open-cast lignite mines at a cost of Ft47m. It will also build a new 1,000MW lignite-fired station near Miskolc, in the north-east of the country.

Together with additional mine investment, this will cost some Ft280bn and provide 600 jobs in an area of high unemployment. It will also halp diversify Hungary's primary fuel needs and reliance on imported oil and gas.

RWE-EVS paid $74m in 1995 for the 800MW Matra station and undertook to build a new station on the site. However, the consortium opted for a redevelopment programme and offered to build a new station, after local lignite reserves at Matra proved insufficient for the working life of a new station.

Kester Eddy, Budapest

H&M climbs 63% at halfway

By Greg McIvor in Stockholm

Shares in Hennes & Mauritz rose sharply yesterday after the Swedish fashion retailer exceeded market forecasts and posted a 63 per cent jump in half-year profits.

Pre-tax profits rose from SKr618m to SKr1bn ($129m) as the company continued the rapid earnings growth which has made it one of the Stockholm bourse's most attractive stocks.

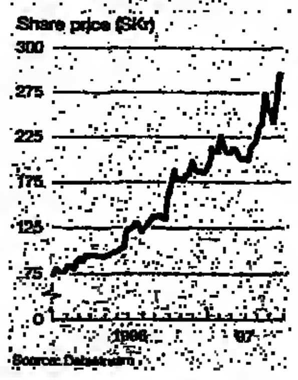
Profits exceeded the most bullish analysts' forecasts and H&M's most-traded B shares surged SKr18.50, or 7 per cent, to SKr285.50. The shares have risen 171 per cent in the past year.

H&M said turnover advanced 31 per cent, from SKr7.8bn to SKr10.2bn, of which 78 per cent was in Sweden.

Sales increased in all markets in spite of generally weak retail market conditions in Europe.

Hennes & Mauritz

Share price (SKr)



Mr Jan Jacobsen, chief financial officer, said: "The key is to keep prices down, do well in purchasing and hold costs down."

The company's policy was always to have the lowest prices. "If we find others who are lower, we cut our prices immediately," he said.

Operating costs rose from SKr5.8bn to SKr7.5bn, reflecting the addition of 21 new stores. Investments and new start-up costs were SKr326.5m, against SKr345m.

H&M, which earlier this month downgraded its Stockholm stock exchange listing in protest at new domestic tax legislation, said it would return to the main A-list if the government relaxed the rules.

The rules mean that large owners of companies with a main listing, such as Mr Stefan Persson, H&M's founder and main shareholder, can pay more than their annual income in tax.

H&M and a group of other companies have joined the O-list. This is designed for smaller, growing companies but is exempt from wealth tax.

The exodus has prompted fears of a sell-off because soma institutions are barred from owning shares in companies which do not have a full listing.

However, the government indicated at the weekend that it might back down and reconsider tha rules.

D-Mark's drop delights exporters

German groups selling abroad have reaped rewards from currency's decline

Executives at German exporters would have been forgiven if they had smiled as the D-Mark lurched downwards on the foreign exchanges earlier this month.

The currency's latest drop – caused by the spat between the German government and Bundesbank over gold revaluation – held out the prospect of a continuation of a trend that has already come to the rescue of the country's exporters.

Amid troubled times for the German economy, one clear lesson from the latest round of company results is that German businesses selling abroad have reaped large rewards from the D-Mark's year-long decline on the foreign exchanges. The currency has lost 14 per cent against the dollar in 10 months, although economists think its decline has more or less reached an end.

"The companies that have a major stake in exports are reporting a strong pick-up in profits," says Mr Stefan Schneider, chief economist at Paribas in Frankfurt.

The stock market is reflecting exporters' success. Last week the Dax index of the country's top 30 companies set another record high, in spite of continued weak activity in tha domestic German economy and unemployment of more than 4.4m, or more than 11 per cent of the workforce.

The shares of some of the big exporters, such as Volkswagen, the carmaker, have risen strongly: VW shares have surged 141 per cent since last July.

"The decline of the D-Mark has had a direct impact on exporters, who have used it to raise sales volumes and boost foreign market share," says Mr Stephen King, chief European economist at HSBC James Capel in London.

Their good performance now contrasts with German exporters' painful experience two years ago when, after weakening, the D-Mark climbed suddenly on the foreign exchanges.

The abrupt appreciation followed an unusually generous wage award by German industry. As a result, many companies were caught in the pincer of higher costs and lower sales abroad, and several lurched towards huge losses: Daimler-Benz recorded the biggest losses of German corporate history in 1995.

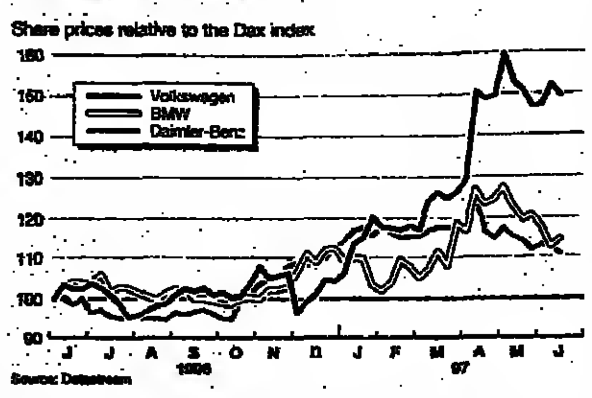
That experience has been a force behind one of the most striking trends in German industry in recent years: many of the countries' big manufacturers have been shifting a large slice of production abroad.

The latest example came last month when Daimler-Benz opened its factory in Alabama, where it will build its new four-wheel-drive car.

It joined BMW in the German carmaker diaspora. BMW has a factory in South Carolina, where it is building its new sports car, in addition to its Rover interests in the UK. VW, meanwhile, is building cars in the Czech Republic.

German carmakers

Share prices relative to the Dax index



But while many German companies were pushed abroad by the cost conditions at home and the strength of the D-Mark, the currency's subseqnent fall has favoured producers that kept large parts of their prodnction in Germany – and whose costs are therefore still denominated in D-Marks.

"There has to be a match between costs and revenues. For some big companies – such as the chemicals industry – the positive impact of the currency is somewhat limited because a lot of their production is outside Germany, for example in the US," says Mr Guenter Dielmann, strategist at Deutsche Morgan Grenfell in Frankfurt. On this measure, the areas that are benefiting most are mechanical engineering, the car industry and, to a lesser extent, the chemical industry.

But the D-Mark's decline cannot take all the credit for German exporters' recent success.

Two other developments have played an important part: the tremendous inroads many German companies have made in cutting costs in their attempt to become competitive, and the strong expansion of the foreign markets into which they sell their goods.

Faced with growing international competition, German companies are restructuring. This has taken the form of the break-up of some of the country's huge conglomerates, as several – such as Hoechst, the chemicals company – have spun off smaller divisions.

It has also meant widespread job shedding and attempts to free up the country's notoriously inflexible labour market and reduce wage increases.

Some companies have succeeded in reaching wage deals with their unions, in return for job guarantees which are specific to individual plants rather than the industry-wide agreements of the past – a new development in German industry.

"The degree of cost-cutting and restructuring now is unprecedented in Germany," says HSBC's Mr King.

That the strong growth of foreign markets has been an important factor is underlined by the places where German exporters appear to have done best – mainly in the fast-growing economies of tha US, south-east Asia and central and eastern Europe.

"They are benefiting from the pick-up in the world economy and from economic stability in eastern Europe," said Mr Schneider, at Paribas.

In addition, some of the exporters' successes can be credited to tha new and attractive products some are offering. For example, VW's new Audi models are proving popular.

Bnt the D-Mark remains an important reason for the improved health of German exporters – and a reason why German companies might be hoping that Chancellor Helmut Kohl's difficulties mean the weaker D-Mark is replaced by an even weaker euro.

Graham Bowley

Top two Brazil banks eye Banerj

By Geoff Dyer in São Paulo

Bradesco and Banco Itaú, the two largest private banks in Brazil, have emerged as the leading contenders to buy Banerj, the retail bank owned by the state of Rio de Janeiro, which is scheduled to be sold at an auction today for a minimum price of R$310m (US$289m).

If the auction takes place, it will be the first privatisation of a bank in Brazil and is expected to prompt a wave of sell-offs of troubled state and federal banks, including Banespa in São Paulo.

However, there was speculation yesterday that the sale might be delayed because of uncertainties surrounding the obligations of Banerj's new owner to fund pensions of the banks' employees, or because of last-minute legal actions.

Eight banks have pre-qualified for the auction but analysts expect the bidding to come down to a race between Bradesco and Banco Itaú, respectively the largest and second largest private banks in the country.

For Bradesco, Banerj represents an opportunity to buy a significant branch network in one of the few states where it is not the leading bank, analysts said, while the acquisition of Banerj, which has 193 branches and total assets of R$4.55bn, would help Itaú close the gap between it and Bradesco.

"The entry of foreign banks, such as HSBC, into the market has forced them to re-think their strategy and will probably make them more aggressive in terms of mergers and acquisitions," said Mr Rodrigo Fiaes, an analyst at Banco Icatu in Rio de Janeiro.

The other expected bidder is BCN, the fifth largest private bank which in January ended merger talks with BBA Creditanstalt, another Brazilian bank. Analysts believe BCN could be a potential takeover target.

The Rio state government hed hoped to privatise Banerj last December but the auction was postponed after bank employees won an injunction against the sale in a legal challenge concerning their pension rights.

Caixa Econômica Federal, which is owned by the federal government, has set up a R$2.9bn loan to cover the deficit in the Banerj pension fund. But despite this, and assurances from the Rio state government, several banks have pulled out of the auction because of concerns that the new owner might be liable in further pension payments.

Banks looking to make acquisitions in Brazil, which include a number of foreign institutions, can wait for the planned sales later this year of Credireal by the state of Minas Gerais and federally-owned Banco Meridional.

Investors glued to Televisa drama

Commercial problems provide backdrop to soap opera-style battle for control

Boardroom battles at the Mexican media giant Televisa, unleashed by the death in April of chairman Emilio Azcárraga, are beginning to resemble the cloak-and-dagger soap operas in which Televisa excels.

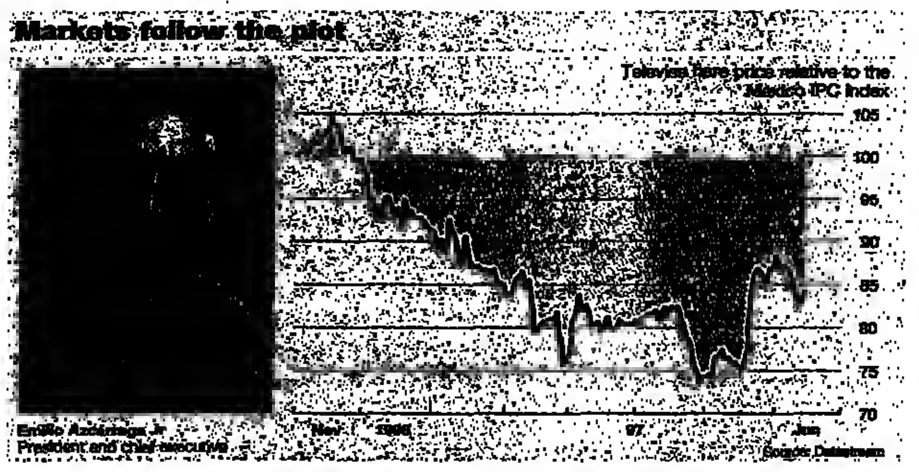
The plotting between Mr Azcárraga's heirs, jilted wives and business associates, however, is creating unease among investors and has depressed Televisa's share price on Mexico City's surging stock exchange.

The succession struggle at the $4bn conglomerate has all the ingredients of a classic Televisa "telenovela": a tragic death, a fabulous inheritance, family feuds and the settling of old scores.

But what is adding to the worries of investors is that the fight for control of the largest media empire in the Spanish-speaking world is occuring at a time when it is facing a series of serious commercial challenges.

Mr Emilio "The Tiger" Azcárraga, a towering figure who led Televisa for 35 years, learned at the start of the year that he was dying of from cancer. He resigned from all management positions in March, and designated his only son, 29-year-old Mr Emilio Azcárraga Jr, as president and chief executive officer.

Markets follow the plot



Before he died, Mr Azcárraga, worried about his son's inexperience, also named Mr Guillermo Cañedo White, the 37-year-old son of his recently-deceased best friend, as chairman of the board.

Mr Cañedo White's appointment as "Little Emilio's" de facto guardian calmed foreign investors. In his new position, he pushed through a cost-cutting scheme which aimed to bring the company's stock up from the doldrums where it had long languished.

The shares had been hit by a number of worries. The audience share of Televisa's terrestrial channels has suffered since the privatisation of upstart network Televisión Azteca. An average market share of 81 per cent in the first three months of 1996 had fallen to 67.7 per cent a year later.

In addition, the company is investing $200m in a direct-to-home TV venture with Mr Rupert Murdoch's News Corp, although this is unlikely to break even for at least three to four years.

And in the first quarter, Televisa showed a sales increase of only 5.4 per cent – to 2.7bn pesos ($339m) – on the same, deeply depressed, period a year before. Other media groups showed rises of more than 80 per cent.

In an attempt to offset these concerns, a cost-cutting plan aims to save $70m a year for the next three years through dismissals, savings on real estate and reducing perks such as corporate aircraft. Since the plan was unveiled on 21 May, the stock has risen 16.7 per cent.

Not everyone, however, was happy with Mr Cañedo White's efforts, least of all Mr Alejandro Burillo Azcárraga, "Little Emilio's" older cousin. Mr Burillo, one of the controlling shareholders, was Televisa's executive vice-president until March 1996, when he was forced to resign in a boardroom coup believed to have been orchestrated by Mr Cañedo White.

As well as dashing his ambitions to succeed his uncle, Mr Burillo's departure also removed the greatest threat to Mr Cañedo White's position as the late chairman's most trusted lieutenant. Mr Burillo appears to have plotted his revenge with some care.

In episode one, on April 23, Mr Cañedo White lost his position as chairman, after a shareholders' meeting which elected "Little Emilio" in his place. But Mr Cañedo White remained chief corporate officer and Mr Azcárraga Jr's right-hand man, with responsibilities for strategic planning, finance and corporate administration.

In episode two, a few weeks later, Mr Burillo convened a meeting of Televicentro, the group which controls 52 per cent of Televisa's voting stock, to propose a big capital increase. Televicentro is owned by the Azcárraga, Burillo, Alemán and Cañedo White families.

Not being as wealthy as the first three, the Cañedo Whites could see their Televicentro shareholding diluted if the proposed capital increase went ahead.

In the third episode, a week ago, Mr Burillo staged a dramatic comeback at Televisa, becoming vice-president and "personal adviser" to Mr Azcárraga Jr. He was also named president of International Affairs and head of Televisa's football division – all while Mr Cañedo White was abroad.

In this, Mr Burillo is believed to have enlisted the support of Mrs Paula Cussi, Mr Azcárraga's fourth wife who was ditched for a Miss Mexico late in his life.

Although Mr Cañedo White's supporters inside Televisa deny his position has been threatened, Mr Burillo's rise certainly complicates the picture, particularly since Mr Cañedo's plans had pleased investors.

As the drama plays itself out, a big concern for investors will be whether the power struggle will distract executives from the sense of purpose they only recently seemed to rediscover.

Will the protagonists overcome their mutual loathing for the good of the company, or will Mr Burillo use his wealth to crush his rival? Who will have the greater influence over "Little Emilio"? Are Mr Cañedo White's days at Televisa numbered?

Stay tuned.

Leslie Crawford
Daniel Dombey

Molson, Foster's seek to buy out Miller

By Bernard Simon in Toronto

Molson Companies, of Canada, and Foster's Brewing, of Australia, are in talks to buy the 20 per cent stake in Molson Breweries held by Miller Brewing of Milwaukee.

Molson and Foster's own 40 per cent each of Molson Breweries, one of Canada's two national beer groups, with a 47 per cent market share. Analysts estimate the value of Molson at about C$2.5bn (US$1.81bn), including C$1bn of debt. Miller's stake would thus be worth roughly C$300m.

The disclosure of the negotiations to buy out Miller has raised the idea that Molson might bid for Foster's 40 per cent interest in Molson Breweries.

Mr Michael Palmer, analyst at Loewen Ondaatje McCutcheon in Toronto, said: "I think Molson wants a lot more than 10 per cent."

Molson said yesterday it had approached Miller to buy its entire 20 per cent stake in Molson Breweries, but that Foster's had exercised its right to acquire one-half of the Miller shares.

Foster's is buying back its shares owned by Asahi Breweries of Japan. Another once large shareholder, BHP, the Australian resources group, has also sold its stake in Foster's.

Molson Companies replaced its chief executive and several directors last month, as part of what it called a concerted drive to focus on beer operations. It also has interests in hardware and entertainment and withdrew last year from a costly investment in an international cleaning services group.

Miller became a partner in Molson Breweries in 1993. The deal was partly driveo by Molson's eagerness to gain a distribution and marketing network in the US. Miller was able to broaden its product range without the expense of launching a new brand.

But the partnership has been soured by a dispute between Molson and Coors, an arch-rival of Miller in the US. An arbitration panel ruled last year that the 1993 Miller deal breached Molson's licensing agreement with Coors.

Miller is now excluded from Molson profits accruing from Canadian sales of Coors, which make up about 8 per cent of Molson's volume. The settlement with Coors also reduced Molson's share of Molson Breweries' profit.

Molson said the talks with Foster's and Miller had reached an advanced stage, bnt that "significant issues remain outstanding."

Molson shares dipped 10 cents to C$24.15 in trading on the Toronto Stock Exchange early yesterday.

AMERICAS NEWS DIGEST

Kmart in C$185m Canada disposal

Kmart, the troubled US retailer, has sold the bulk of its 123-store Canadian subsidiary to a group of institutional investors for C$185m (US$142m). Kmart has been seeking a buyer for the loss-making Canadian operation for some time, in line with its strategy of cutting costs and focusing on its US business.

The buyers include New Jersey-based York Management Services, the Caisse de Depot et Placement du Quebec and Cherokee Ventures of Deover. Michigan-based Kmart will retain a 12.5 per cent stake.

Kmart Canada also named Mr George Heller as chief executive. Mr Heller was formerly head of North American and European operations at Bata, the privately held shoe group. He was one of the last survivors of a group of executives hired in 1994 and 1995 to reinvigorate Bata. The others left after they failed to persuade Mr Tom Bata, the group's octogenarian owner, that sweeping changes were needed. Kmart is Canada's third-biggest discount retailer, with 1996 sales of C$1.1bn. Competition has intensified in recent years with the arrival of Wal-Mart, the giant US chain, and other US retailers. Kmart Canada lost C$4m in the first quarter of this year.

Bernard Simon, Toronto

BT, MCI start satellite service

British Telecom and MCI yesterday introduced a joint satellite transmission service for US broadcasters, a eign of bow the UK and US telecoms companies are beginning to combine services in the run-up to their planned merger. The two hope to use BT's role in carrying video programming in Europe to establish a presence in the US by selling a single global service to US broadcasters, cable television companies and others.

BT already carries programming across the Atlantic, with events such as the Wimbledon tennis tournament and last year's Olympic Games. By opening new "gateways" in Washington, New York and Los Angeles to its international network, and by using MCI's existing capacity on two satellites to carry programming inside the US, the two aim to become one of the biggest forces in the fast-growing, $250m US market, said Mr John Swingewood, general manager of BT Broadcast Services.

Richard Waters, New York

Gulf, MCN in joint venture

Gulf Canade Resources and MCN Energy Group's investment arm have announced they will formed a joint venture to market natural gas for Gulf and other North American producers. The new company, Gulf-CoEnergy Services, will begin marketing about 500m cubic feet per day of natural gas in July. The alliance will enable Gulf to take edvantage of MCN's strong marketing presence in the US Midwest and north-east.

Gulf-CoEnergy, of which Gulf will hold 60 per cent and MCN 40 per cent, plans to extend its marketing through third-party arrangements. MCN, a diversified energy holding company with US$3.7bn in assets, controls Michigan Consolidated Gas, a natural gas distribution firm serving about 1.2m customers in the US state. MCN is also involved in oil and gas exploration, production, marketing and electrical generation in the US and India. The joint venture will combine MCN's marketing expertise with Gulf's gathering and processing facilities in western Canada, helping the producer to meet growing natural gas demand in the US. Gulf is one of Canada's top 10 energy concerns with assets of C$5.4bn ($3.26bn).

Scott Morrison, Vancouver

Crystallex faces suit

The Venezuelan state industrial complex Corporación Venezolana de Guayana (CVG) is to sue Crystallex for "damages and losses" allegedly incurred after the Canadian mining company claimed ownership rights over the country's largest known gold deposit.

"CVG and the entire country have been affected by the attitude taken by Crystallex, which has no legal basis whatsoever," said Mr Luis Guzman, secretary-general of CVG. The law suit will be filed before a Venezuelan court in coming weeks, he said. CVG and its partner, Canada's Placer Dome, were forced to put the $576m development of Las Cristinas gold mine on hold when Crystallex earlier this year claimed ownership rights to the Cristinas 4 and 6 mining concessions. Crystallex's claim arose from the purchase of local company Inversores Mael last year. CVG as well as the national government have rejected such claims. The supreme court is currently deciding whether to hear the case brought forward by Crystallex.

The row has renewed concerns of legal uncertainty in Venezuela's mining sector, which is already plagued by red tape and delays in government authorisations. Nearly a dozen junior mining companies have been waiting for years to obtain government permits to begin developing mining concessions they own. "The outcome of the Las Cristinas dispute will set e precedent," said an executive with an international mining company in Caracas. "If it is not resolved quickly, it could send a very negative signal to investors."

Raymond Colitt, Caracas

Republic set for NYSE listing

By Richard Waters in New York

Mr Wayne Huizenga, one of the most successful entrepreneurs in the US, will this week bring his third company to the New York Stock Exchange – though at a time when stock market investors have cooled noticeably toward his ambitions to build a dominant US car retailer.

Mr Huizenga's Republic Industries will make the switch from the Nasdaq stock market to the NYSE on Friday, following a path well-trodden by other entrepreneurs over the years. The Florida-based businessman has made the same switch himself in the past with Waste Management (now known as WMX) and Blockbuster Video (since bought by Viacom).

The move is intended in part to make the company more attractive to e wider group of shareholders, since many investors only buy NYSE-listed stocks, Republic said. However, the company's Big Board debut will be overshadowed by uncertainty about its ability to keep growing at the feverish pace of the past year.

Since taking control of AntoNatlon USA, a Huizenge company which operates car "superstores", Republic has used a rapidly rising stock price to mount acquisitions of other dealerships, making it the biggest car retailer in the US.

The shares heve slid in recent weeks, though, on concerns that Republic will not be able to maintain its blistering pace. While US carmakers have bean content to let the company acquire their dealerships, they have set informal limits on how far they will let Mr Huizenga expand. In addition, both Toyota and Honda have mounted legal challenges to block his ability to purchase their dealerships.

At the same time, a recession in the used car market in the US – prompted in part by the large numbers of two- and three-year old vehicles covered by lease agreements that are now ending – has threatened to dent profits in a market that accounts for a large part of the earnings of many dealerships.

Republic shares were trading yesterday morning at $20⅛, from $44 in January.

The company yesterday denied that the fall in its share price would hinder its acquisition drive. When agreeing to sell to Republic, dealers are guaranteed stock with a certain value, regardless of the ectual share price when the transactions close, it said.

COMPANIES AND FINANCE: UK

British Steel to cut 2,000 jobs

By Stefan Wagstyl, Industrial Editor

British Steel is cutting more than 2,000 jobs in the first stage of the cost reduction drive it announced earlier this year in response to the rise in the pound.

The company, which yesterday announced a 59 per cent slump in pre-tax profits to £451m ($735.1m) for the year to March 29, set aside £61m in rationalisation charges.

The job reductions are in line with the company's decision to increase the rate of job cuts from recent levels of about 1,000 a year. Last year, British Steel reduced its workforce by 3,600 to 50,400, including 2,100 through the sale of its forgings business and 1,500 through mainstream cuts.

Sir Brian Moffat, chairman and chief executive, warned profits could fall further in the current half-year, which ends in September, since the full effect of sterling's 20 per cent appreciation since last summer had yet to become apparent in British industry. "The probability is that the biggest effect will be in these six months."

Sir Brian said that while he was "cautiously optimistic" about the outlook for steel trading, given signs of recovery in demand in western Europe, be remained concerned about sterling's current strength.

He added: "The strength of sterling is a problem to British Steel and to many of its UK customers who are also significant exporters."

The company's financial results were in lioe with City analysts' forecasts and the shares closed 4¼p down at 158¼p. Earnings per share fell by more than balf to 15.22p. The divideod was unchanged at 7p for the final payment and 10p altogether.

The company also announced plans to take a majority stake in a US$600m-$900m steel mill in Indonesia, to be developed in partnership with PT Bakrie & Brothers, the Indonesian conglomerate. If the project goes ahead, it could add about 1m tonnes of steel a year, to British Steel's current output of 15m.

The company is cootinuing its campaign against subsidies for European Union steelmakers and has asked the European Commission to investigate reports tbat the Walloon regional government in Belgium is preparing to finance the rescue of Forges de Clabecq, a steel groop which went bankrupt last year.

Dividend held despite 59% fall

By Stefan Wagstyl, Industrial Editor

British Steel has held its dividend despite a 59 per cent drop in annual pre-tax profits cansed by tbe pound's appreciation and a fall in steel prices. A final dividend of 7p makes an unchanged total of 10p.

Sir Brian Moffat, the cbairman and cbief execntive, dismissed snggestions that the company might have considered cntting the dividend because of thc fall in its profits and an nncertain ontlook for 1997-98.

"We considered the dividend in the light of the company's trading situation and strength. There was no debate on cntting tbe dividend at thc hoard at all," he said.

Turnover rose 2 per cent to £7.22bn ($11.8bn) with increases in ontput compensating for declines in income per tonne. Operating costs rose 12 per cent to £6.85bn, due mainly to the consolidation of Avesta Sheffield for the full year.

Operating profits were £389m, down from £1.07bn, and earnings per share fell to 15.22p (38.28p).

British Steel said all its businesses were affected by sterling's rise and the downturn in steel markets. But Avesta Sheffield, the 51-per-cent-owned Swedish stainless steel subsidiary, was particularly badly hit and posted a £7m pre-tax loss compared with a £228m profit. It suffered from a sharp drop in stainless steel prices and from delays in commissioning cost-cutting investments.

Capital investment reached £413m, the highest since 1991, incinding the cost of completing the Tuscaloosa mill in Alabama and further work at Trico, the gronp's joint venture with domestic prodncer LTV of the US and with Sumitomo Metal, of Japan.

LEX COMMENT

NatWest

It has not been a happy June for National Westminster Bank. First there was news that it had initiated unsuccessful merger talks with Abbey National. Now comes the admission that its investment banking arm, NatWest Markets, is not performing up to scratch. To admit to weakness is no sin, but twice in a month starts to look like a losing habit.

Of course, a decision to focus on maximising returns is welcome, albeit it is late in the day. But yesterday's announcement testifies to a deep-seated confusion: last year it was expanding, with acquisitions like Greenwich, Gartmore and Hambro Magan. Now it is pulling in its horns.

More important, its current activities resemble an agglomeration of boutiques rather than an integrated investment bank. Successful banks leverage customer relationships across different product barriers. Employees learn to develop the franchise, not their own patch. NatWest Markets, however, still resembles a bunch of distant relations rather than close family. And the grey hierarchical culture of the clearing bank parent remains an unpromising backdrop for the egos and entrepreneurs of investment banking.

Decent returns *are* possible in investment banking, hut even after yesterday's news, NatWest Markets looks a long way from having discovered the recipe. This time round Mr Martin Owen walked the plank, but Mr Derek Wanless, the chief executive, and Lord Alexander, the chairman are also heavily implicated in this failure.

Britax makes its largest acquisition

By Richard Wolffe, Midlands Correspondent

Britax International, the automotive and aircraft prodncts group, yesterday announced its largest acquisition with the DM205m ($118.40m) purchase of Buderus Sell of Germany.

Britax, formerly known as BSG International, said the deal created the world's second largest player in the £440m-a-year aircraft interiors sector, after BE Aerospace of the US.

The purchase is Britax's first substantial acquisition since the sale of its Bristol Street car dealerships for £72m earlier this year.

Mr Richard Marton, Britax chief executive, said: "This is a cracking deal. Buderus Sell's profits and turnover bave been growing extremely strongly and it enhances earnings before any synergies from day one. The acquisition reinvests the Bristol Street proceeds into a business with much higher quality earnings."

Mr Marton added that Britax was considering "a number of possible smaller operations" as potential bolt-on acquisitions, as the process of consolidation in the sector continued.

Buderus Sell, part of the Buderus engineering group, reported pre-tax profits of DM10.5m on sales of DM106m for the year to last September.

The aircraft interiors company is being sold with a net cash balance of about DM25m.

Based in Herborn, Buderus Sell employs around 500 staff producing galleys and ovens in Germany and the US. It also owns a 50 per cent stake in Dassell, a joint venture with Daimler-Benz Aerospace Airbus, which is the sole supplier of lavatory modules for Airbus aircraft.

Buderus Sell reported "an exceptionally strong start" to the current year as well as a good three-year order book, after completing a wide-ranging restructuring over the past three years.

Britax said the deal would strengthen its market position with complementary products and customers. Britax supplies lavatories to Boeing's 737 aircraft, but is best-known for its first-class seating based on the "flying bed" concept.

The deal led analysts to lift their forecasts for Britax's pre-tax profits from some £38m ($61.94m) to £39m this year, and about £45.5m next year. The shares gained 1.5p to 98.5p.

NU and Woolwich conversion offers stir market

Building society windfall frenzy

By Christopher Brown-Humes

Brendan Corr

(l-r) Richard Harvey, FD; George Paul, chairman; and Allan Bridgewater, CEO viewing the trading at Kleinwort Benson

Windfall frenzy gripped the financial services sector yesterday after a successful market debut by Norwich Union and suggestions of a higher-than-expected flotation bonanza for the 2.5m members of Woolwich building society.

Shares in Norwich Union closed at 324.5p, providing the life insurer's 2.9m members with an average windfall worth more than £1,500 ($2,445). The price was comfortably above the 290p public offer price set on Sunday, but short of the 356p opening level, partly because of the overall fall in yesterday's stock market.

It means the 766,000 people who will receive additional shares in the company at a discounted 265p price were sitting on a theoretical profit of 60p a share last night.

Meanwhile City Index, the financial bookmakers, predicted Woolwich shares would close at between £3.27 and £3.37 when the new bank starts trading on July 7.

A 332p price would produce a windfall worth at least £1,494, as all Woolwich savers and borrowers will receive a minimum of 450 shares. In January, Woolwich forecast a £844 minimum windfall.

However, the average allocation of 655 shares would be worth about £2,174, against the £1,233 predicted in January. The pay-out to someone with £50,000 in savings, who is also a borrower, would be worth £9,628. The price would value Woolwich at about £5.3bn.

Norwich Union is worth about £6.25bn at yesterday's closing price, making it the country's third largest quoted insurer after Prudential and Royal & Sun Alliance.

Its debut, which ends 200 years of mutual ownership, was overshadowed by the general market weakness, but the shares were supported by institutional demand. Turnover amounted to 149m shares, about 17 per cent of the total market.

Camellia lifted by tea demand

By Jane Martinson

Increased demand for tea in the former Soviet Union helped Camellia, the investment group, lift 1996 pre-tax profits 13 per cent to £14.6m ($23.8m) last year.

The directors said that the group, which derives a large part of its earnings from its bolding in the Lawrie Group, an agricultural prodncer, had heoefited from bigber prices for tea and coffee last year.

Mr David Bacon, the managing director of Camellia, said that relaxed market conditions in the former Communist states and in countries such as Iraq and Iran more recently had increased the global demand for tea. Depressed supply in the world's coffee markets had also improved profits in the period.

The company forecast a continuation of the improvement as a drought in tbe tea market looked set to lift prices further this year.

Total sales fell from £220m to £212m after the discootinuation of an associated fisheries business. However, operating profits rose almost 9 per cent to £18.2m as margins improved on the back of the rise in commodities prices.

Psion launch hit by slowing sales

By Christopher Price and Paul Taylor

The launch of a new generation of palm-top computers by Psion was overshadowed yesterday when the specialist manufacturer warned of a "slowdown" in sales and the continued strength of sterling.

The shares fell 97½p, or 19 per cent, to 407½p. Analysts cut 1997 pre-tax profit forecasts from £24m ($39.1m) to about £16.5m, just ahead of last year'a £16m.

Mr David Potter, chairman, said the prohlem had been caused by the group's distributors de-stocking ahead of the launch of Series 5. While sales of the Siena personal organiser had been "disappointing", the established Series 3 computer had held up well.

"We warned at the time of the preliminary results, and again at the annual meeting, that because of Series 5, 1997 will be a year of transition for Psion," he said.

The group's performance would be affected for a number of months until the new series was estahlished, he added.

Psion has invested heavily in Series 5, which represents its response to rival hand-held machines based on Microsoft's new Windows CE computer operating system. Its acceptance in the personal and corporate markets is also likely to have an important influence over Psion's future financial and share price performance.

The pocket-sized machine, which will be available next month priced from £499, builds on the Series 3 machines.

Software and a cable to connect to leading GSM digital mobile telephones will be available later this year. The emphasis on communications came as little surprise to analysts following last year's attempt to buy Amstrad, Mr Alan Sugar's consumer electronics group, with its mobile telecoms division being a key attraction.

The machine is the first to use Psion's powerful 32-bit EPOC32 operating system, and is built around an advanced microprocessor developed by ARM, the Cambridge-based group.

Psion has also licensed the new operating systems to other as yet unidentified "leading international companies".

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Albion	6 mths to Mar 31	9.55	(12.14)	0.202♥	(0.154L♥)	5.4	(4.1L)	0.8	July 14	0.8	-	1.6
British Steel	Yr to Mar 29	7,224	(7,048)	451♥	(1,102♥)	15.22	(38.28)	7	Aug 11	7	10	10
Camellia ϕ	Yr to Dec 31	212.3	(220.2)	14.6♥	(12.9♥)	223.13	(165.68)	24.5§	July 31	23.5	42.5	41
Daras Estates	Yr to Dec 31	8.6	(7.7)	1.995♥	(3.29♥)	4.33	(8.7)	nil	-	nil	nil	nil
Deltron Electronics	6 mths to Mar 31	12.3	(12.9)	1.04	(0.89)	3.8†	(4.2)	1	Aug 14	-	-	-
Fairbriar Group	Yr to Dec 31	22.6	(13.9)	3.32	(1.52L)	6.05	(7.75L)	-	-	-	-	-
Full Circle Inds	Yr to Mar 30	13.7	(7.2)	2.53L♠	(0.64L♠)	2.44L†	(0.82L)	0.1	Oct 6	0.1	0.1	0.1
Hill Hire	Yr to Mar 31	21	(19.1)	3.04♠	(3.51)	6.57	(10.7)	2.67	Aug 1	2.46	4	3.69
Kern River ϕ	6 mths to Mar 31	0.17	(0.001)	0.008♥	(0.013L)	0.06	(0.15L)	-	-	-	-	-
London Indust'l	Yr to Mar 31	17.2	(14)	4.83	(4.18)	24.7	(21.3)	10.5	Aug 1	8	15	13
London Scot Bank	6 mths to Apr 29	-	(-)	4.31	(4.3)	2.8	(2.6)	0.975	July 25	0.85	-	2.95
Megalomedia	Yr to Mar 31	6.73	(1.84)	1.87	(0.31♠)	2.01†	(0.73)	0.2	Oct 1	-	0.2	-
Plysu	Yr to Mar 31	134.1	(129.3)	9.3	(6.9♠)	12.5	(9.6)	5.75#	July 1	5.35	7.75	7.35
Quintain Ests	Yr to Mar 31	11.8¥	(7.61)	3.49	(2.47)	6.6	(7.2)	2	-	-	3	-
Sterling Inds	Yr to Mar 31	76.1	(65)	9.41	(8.11)	20.58	(18.69)	6.8	Aug 11	5.7	10	8.5
Wainhomes	Yr to Apr 4	105.6	(96)	6.68	(2.08)	7.1	(2)	3.25	Aug 15	3	4.75	4.5
Wynnstay Props ϕ	Yr to Mar 25	1.49¥	(1.55¥)	0.355♠	(0.372)	8.7	(8.27S)	3.35#	July 1	3	5	4.5

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
F&C Private	Yr to Mar 31	101.4	(90.9)	0.4	(0.166)	1.6	(0.66)	1.2	July 1	0.5	1.2	0.5
Invesco Recovery	6 mths to Apr 30	128.8p	(116.2♦)	0.370	(0.306)	4.49	(3.7)	4	June 9	4	-	8
L&G Recovery	6 mths to Apr 30	143.6	(132.5)	0.552	(0.538)	1.5	(1.46)	0.8	July 31	0.75	-	2.35

Earnings and NAV shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ϕAim stock. #Second interim in lieu of a final. ¥Gross rental income. ♦As at Oct 31 1996. §Foreign income dividend.

PowerGen gains Hungary contract

By Kester Eddy in Budapest

PowerGen has become the first foreign investor in Hungary to secure a long-term power purchase agreement (PPA) for an independent power project, paving the way for a £160m power plant in Budapest.

PowarGen's Hungarian subsidiary Csepel Power has signed a 20-year PPA with MVM, the Hungarian electricity utility, to take power from the new Csepel II 390MW combined cycle gas turbine plant, the company said yesterday.

The new plant is scheduled to come on stream in 2000 and will be located on an island in the Danube, adjacent to an existing 48MW plant purchased by PowerGen last year.

Some foreign investors have expressed frustration both privately and pnblicly with the delays encountered when seeking long term power agreements with MVM.

Mr Deryk King, PowerGen's group managing director, said the deal secured the company's third big overseas project with a month. "It is predicted that 3,800MW of new energy capacity will be required in Hungary by 2010," he said. "This plant is a significant step towards achieving that total."

INTERNATIONAL CAPITAL MARKETS

Single currency hopes lift Europe

GOVERNMENT BONDS

By Michael Lindemann in London and John Labate in New York

Europe's main bond markets edged higher yesterday, still positive about recent US data and relieved that European leaders had managed to paper over their differences about the so-called stability pact for the single currency.

"Yet again, they have managed to pull some mangy rabbit out of the hat," said Ms Phyllis Reed, international bond analyst at BZW, referring to the summit of European Union leaders in Amsterdam. "The markets are taking a view that the single currency is going ahead."

Mr David Brown, chief European economist at Bear Stearns, was more hesitant about Emu prospects and said the emphasis remained on deconvergence. "The events of the last month show that Europe is far from any kind of stable equilibrium oo Emu and, if anything, underlying tensions are getting worse rather than better. Emu could easily blow up on the back of a number of different medium-term factors."

Some analysts were surprised tbet GERMAN BUNDS ended the day higher, but attributed that to the strength of US markets. In fact, bunds marginally outperformed and the spread of Treasuries over bunds widened one basis point to 83 basis points. The September bund future settled at 101.71, up 0.14.

FRENCH OATs were little different, even though official data showed the 1997 budget deficit had risen to FFr209bn in the four months to the end of April.

That compares with FFr223bn in the same period last year but still represents about 2.5 per cent of GDP, analysts said. They warned, however, that the make-up of the figures was unclear and seemed not to include the FFr37bn payment from France Telecom.

Analysts also reported demand at the long-end of the French yield curve from domestic investors, who have bolstered the market in recent weeks. The September notional future settled at 129.20, up 0.28.

Interest in the long end of the French curve offered few rewards, according to Ms Reed at BZW. What seemed to make more sense in the run-up to Emu, she said, was the front-end of the Italian, Spanish and Portuguese curves, betting on the likelibood that interest rates in those countries will have to rise to converge with German interest rates as the single currency draws nearer.

ITALIAN BTPs and SPANISH BONOS responded to the more positive news about Emn. The September BTP future reached an intra-day high of 132.39 before settling at 132.18, up 0.39 from Friday's close.

The September bono future ended the day at 116.58, up from 116.14 before the weekend. The spread over bunds tightened five basis points to 68 points.

UK GILTS made steady progress upwards, helped by a report in the Financial Times that Mr Gordon Brown, chancellor, was likely to abolish the 20 per cent tax credit on dividend payments in his budget on July 2.

Such a move would make gilts considerably more attractive than equities, said Mr Andrew Roberts, gilts analyst at UBS.

The September gilt future settled at 114$\frac{13}{32}$, up from 114½ at its close on Friday. The yield spread of gilts over bunds tightened one basis point to 147 basis points.

US TREASURY prices rose strongly at mid-session, continuing to benefit from positive sentiment about the outlook for infletion and interest rates.

By midday, the benchmark 30-year bond rose $\frac{15}{32}$ to 99$\frac{1}{32}$, pushing long-term yields downward to 6.692 per cent. The long bond was on course to yield less than 6.7 per cent at the close for the first time since late February, just prior to the Federal Reserve's last tightening of monetary policy in March. The shorter-term two-year bond also rose slightly by $\frac{1}{32}$, yielding 5.981.

"The markets have a positive tone now, with many expecting the Federal Reserve to hold in July," said Mr Kevin Logan, senior economist with Dresdner Kleinwort Benson. "Investors are feeling less risk as they move out on the yield curve."

Mr Logan also said investors were guided by the expectation that today's consumer price index data would remain "benign", with little sign of an inflationary resurgence.

KDB innovation cuts cost of borrowing

INTERNATIONAL BONDS

By Edward Luce

Dollar issuance kept up its lively pace yesterday with almost $3bn in new offerings, mostly in the five-year sector. Bankers said that the strong showing in US Treasuries last week had freed up liquidity for "spread-deals" in the corporate market.

"Demand is still very strong for dollars but investors are a little more defensive, so they're looking more at the short end of the maturity curve," said one official.

The KOREAN DEVELOPMENT BANK struck an innovative note with a $300m floating-rate note issue linked to the bank's credit rating. Officials at Goldman Sachs, sole arranger of the deal, said European investors were reassured by the put option on the deal, which enables them to redeem the bonds if the KDB's rating falls.

In practice, however, the KDB is unlikely to see its rating fall from its current A1/AA- to below A3 or A- despite the country's economic travails. The structure is therefore seen as an effective way of reducing the KDB's funding costs.

"This has probably reduced the offer spread by between five and 10 basis points," said an official. The five-year bond, which is callable after three years at par, was priced to yield 18.75 basis points over three-month Libor.

JFM, Japan's municipal funding agency, bucked the fashion for shorter maturities with a benchmark $400m 10-year offering. An official at Merrill Lynch, which led the issue with Tokyo-Mitsubishi, admitted the deal was "not e blow-out but it was comfortable". The bond was priced to yield a spread of 23 basis points over Treasuries.

"We really did our homework on this," said an official. "At 22 basis points it would have been way too tight and 24 basis points would have been a blow-out." The price was comparable with the 23 basis points offered by Toyota Motors recently and the 24 basis point spread offered by the Japanese highways agency, he added.

HITACHI CREDIT tapped the markets for the first time this year with a $200m offering at 28 basis points over Treasuries. An official at J.P. Morgan, sole lead manager, said it was deliberately priced to yield more than the secondary market rate of its previous five-year issues, which are trading at around 22 basis points over Treasuries. The bonds were popular in the UK.

The LEBANESE REPUBLIC benefited from World Bank support with a $100m offer at just 100 basis points over 10-year Treasuries. The World Bank guaranteed the principal on the bond thus saving "at least 100 basis points" in funding costs, according to an official at Merrill Lynch, sole lead manager. The proceeds will go towards a Lebanese electricity project.

US offshore funds bought heavily into DEN NORSKE BANK'S first eurodollar since 1993, according to an official at Lehman Brothers, which led the deal with UBS. The five-year $500m floater was priced to yield five basis points over Libor. The Norwegian bank apparently benefitted from rarity value.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Den norske Bank‡	500	(a)	100.00R	Jul 2002	0.175R	-	Lehman Brothers/UBS
JFM	400	6.75	99.998R	Jul 2007	0.325R	+23(6⅝%May07)	Merrill/Tokyo-Mitsubishi
Abbey Natl Trsy Services	400	6.25	99.807R	Jun 2000	0.1875R	+15(6⅜%May00)	Salomon/SBC Warburg
Korea Dev'ment Bank(b)‡	300	(b1)	99.85R	Jun 2002	0.15R	-	Goldman Sachs Intl
BPER‡	300	(c)	99.825R	Jul 2002	0.175R	-	Citibank/SBC Warburg
Hitachi Credit Bank	200	6.625	99.824R	Jul 2002	0.275R	+28(6⅝%May02)	JP Morgan Securities
Cyclea	200	9.375#	99.591R	Jun 2002	0.275R	+320(6⅝%-02)	Citibank International
Lebanese Republic(d)	100	7.50	99.716R	Jul 2007	0.625R	+100(6⅝%-07)	Merrill Lynch Intl
D-MARKS							
Kingdom of Denmark‡	500	5.00	99.865R	Dec 2003	0.275R	+5(6%Oct03)	Deutsche Morgan Grenfell
STERLING							
Robert Fleming Capital‡	100	(e)	100.00	Oct 2000	0.15	-	Dresdner KB
SWISS FRANCS							
CSFB, London Branch‡	100	(f)	102.50	undated	2.75	-	CSFB
GUILDERS							
ENG(g)	750	5.00	99.66R	Dec 2004	0.275R	+18(6%Apr03)	ING Barings

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ‡ Floating-rate note. # Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) 3-mth Libor +5bp. b) Callable from Jun 00 at par. Putable if credit ratings fall below A3/A-. b1) 3-mth Libor +18.75. c) 3-mth Libor +10bp. d) Principal guaranteed by World Bank. e) 3-mth Libor +¼%. f) SFr350m launched 11/6/97 was increased to SFr450m. Callable from Jul 07 at par. f) 4⅜% to 23/7/07, then 3-mth Libor +85bp. g) Short 1st coupon.

CAPITAL MARKETS NEWS DIGEST

Moody's expands high-yield ratings

Moody's, the US rating agency, is expanding its ratings of low-grade debt in response to increased issuance by lower-rated companies in the highly active US high-yield, or "junk bond", market. The Caa category will be expanded to three levels, Caa1, Caa2, and Caa3, in line with the ratings in the B and A area. Currently, the rating below B3 is Caa.

Moody's said the decision was made following requests by institutional investors. The agency noted "the dramatic expansion of the lower end of the high-yield market in terms of the number of issues, the types of issues and the increasing investor appetite for this grade of risk". A strong economy and low interest rates bave helped stir investor enthusiasm for junk bonds.

Moody's currently rates more than $30,000bn of debt, of which $21.5bn falls in the Caa category. Junk bonds are defined as those rated below Baa3.

Tracy Corrigan, New York

Sabanci IPO aims for $210m

Sabanci Holding, the Turkisb financial and industrial conglomerate, yesterday began e series of roadshows for an initial pnblic offering of shares through which it bopes to raise up to $210m. The company plans to sell 5bn shares, representing 10 per cent of its capital.

About 90 per cent of the offering will be directed at foreign investors and 10 per cent will be allocated to Turkish institutions and retail investors. The ordinary shares will be listed on the Istanbul stock exchange and as American Depositary Receipts in London. The ADRs, which represent 250 sbares, are likely to be priced between $9 and $10.50 while the price of the shares will be between 36 cents and 42 cents. The offer is likely to be priced in the week beginning June 30 and is expected to begin trading a week later. *Michael Lindemann, London*

Banks prepare A$350m issue

Fund managers will be wooed this week by banks underwriting one of the largest inflation-linked bond issues to be lannched on the Australian debt markets. Market participants say the A$350m (US$269m) issue - part of the financing for the Loy Yang A power plant in the state of Victoria - could soon be followed by other innovative deals.

Behind the trend is e handful of infrastructure projects being financed in the capital markets, instead of by bank loans, as had been common practice in the past. Australia & New Zealand Banking Group is underwriting A$200m of the bonds, Macquarie is underwriting A$100m and Australian Mutual Provident Society is underwriting $50m, several sources familiar with the transaction said.

The bonds are just a part of the project finance for the project, which a consortium led by CMS Energy of the US bought for A$4.7bn. The financing consists of roughly 25 per cent in equity and 75 per ceot in debt.

AP-DJ, Sydney

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		6.750	11/06	96.4242	+0.270	6.98	7.33	7.80
Austria		5.750	04/07	99.2400	+0.230	5.85	5.84	5.76
Belgium		6.250	03/07	103.5700	+0.070	5.76	5.88	5.87
Canada*		7.250	06/07	106.0400	-0.070	6.16	6.40	6.58
Denmark		8.000	03/06	112.1100	-0.010	6.18	6.25	6.41
France	BTAN	4.750	03/02	100.7091	+0.130	4.58	4.70	4.72
	OAT	5.500	04/07	99.5600	+0.260	5.56	5.73	5.69
Germany Bund		6.000	07/07	102.4300	+0.180	5.68	5.79	5.74
Ireland		6.000	08/06	100.8300	+0.410	6.52	6.73	6.69
Italy		6.750	02/07	98.6400	+0.370	6.94†	7.19	7.29
Japan	No 145	5.500	03/02	117.1768	+0.180	1.81	1.74	1.70
	No 182	3.000	09/05	104.2788	+0.070	2.36	2.47	2.43
Netherlands		5.750	02/07	101.4400	+0.100	5.55	5.67	5.65
Portugal		9.500	02/06	121.1000	+0.700	6.27	6.44	6.60
Spain		7.350	03/07	107.0000	+0.460	6.35	6.65	6.71
Sweden		8.000	08/07	106.6696	+0.070	6.76	7.00	7.11
UK Gilts		7.000	06/02	100-13	+3/32	6.90	7.02	6.99
		7.250	12/07	101-22	+8/32	7.02	7.11	7.11
		9.000	10/08	114-26	+9/32	7.08	7.16	7.16
US Treasury*		6.625	05/07	101-20	+1/32	6.40	6.51	6.71
		6.625	02/27	99-02	+7/32	6.70	6.80	6.83
ECU (French Govt)		7.000	04/06	107.8000	+0.220	5.84	6.05	6.02

London closing, *New York mid-day. Yields: Local market standard. † Gross (including withholding tax at 12.5 per cent payable by nonresidents) Prices: US, UK in 32nds, others in decimal. Source: Standard & Poor's MMS.

US INTEREST RATES

[illegible]

BOND FUTURES AND OPTIONS

France

NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

[illegible]

LONG TERM FRENCH BOND OPTIONS (MATIF)

[illegible]

Germany

NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

[illegible]

BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

[illegible]

Italy

NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

[illegible]

ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

[illegible]

Spain

NOTIONAL SPANISH BOND FUTURES (MEFF)

[illegible]

UK

NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

[illegible]

LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

[illegible]

Ecu

ECU BOND FUTURES (MATIF) ECU100,000

[illegible]

US

US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

[illegible]

Japan

NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

[illegible]

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

FTSE Actuaries Govt. Securities

[illegible]

UK Indices

		Low coupon yield Jun 16	Jun 13	Yr. ago	Medium coupon yield Jun 16	Jun 13	Yr. ago	High coupon yield Jun 16	Jun 13	Yr. ago
	5 yrs	6.92	6.95	7.43	6.97	7.00	7.48	7.03	7.05	7.58
	15 yrs	7.06	7.09	8.28	7.11	7.14	8.29	7.08	7.09	8.37
	20 yrs	7.11	7.14	8.37	7.12	7.15	8.36	7.08	7.09	8.43
	Irred.†	7.21	7.24	8.42						

[illegible]

FT Fixed Interest Indices

[illegible]

Gilt Edged Activity Indices

[illegible]

FT/ISMA INTERNATIONAL BOND SERVICE

[illegible]

UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

CURRENCIES AND MONEY

EU deal fails to buoy the dollar

MARKETS REPORT

By Simon Kuper

The dollar fell yesterday, despite a European Union deal on budget stability and jobs pacts that seemed to keep European monetary union on track.

EU finance ministers meeting at the Amsterdam summit yesterday said they had struck a deal which would leave the EU's budget stability pact intact, and said they would add a separate resolution on jobs growth. This apparent triumph for France looked at first glance like good news for the dollar. Firstly, the deal left the markets all but certain that Emu would proceed without delay, so that the D-Mark would disappear into the euro. "It appears that the political objective of a timely EMU is overriding," said Mr Keith Edmunds, chief analyst at IBJ International in London. Secondly, some said a jobs pact could lead to relatively loose fiscal and monetary policy under Emu.

Yet the dollar closed 0.8 pfennigs down in London at DM1.730, and Y1.2 lower against the yen at Y113.5. The US currency, after initially threatening its high for 1997 of DM1.7423 to the D-Mark, succumbed to profit taking in the London afternoon. But volumes were low. Currency strategists said the D-Mark held up well because the markets had already priced in the EU's deals – the dollar had surged on Friday – and because so little detail emerged on the jobs pact yesterday that traders were uncertain whether it would have teeth or not. Mr Nick Parsons, currency strategist at Paribas Capital Markets in London, said that in the absence of detail traders largely shrugged off the pact. The lira and the French franc barely firmed.

The dollar suffered from the diminishing belief that the Federal Reserve would raise interest rates next month, and on prospects of a further leap in Japan's trade surplus. May figures out on Wednesday are expected to show a year-on-year rise in Japan's surplus of 200 per cent or more, driven largely by strong exports to the US.

The US trade balance for April is due on Thursday, keeping the issue firmly in the market's mind. The Group of Seven meeting in Denver later this week is seen by traders as a potential forum for new US demands that Japan reduce its surplus. The yen also firmed further against the D-Mark yesterday, to Y65.60.

Japanese officials tried to moderate the yen's rise. Mr Shinji Sato, minister of international trade and industry, said: "Our position is that neither a further appreciation nor a depreciation of the yen is desirable."

■ Most currency strategists think that if the EU's new jobs pact turns out to be more than mere words, it could bode a "marshmallow" soft euro against the dollar. If EU states do spend significant amounts of money to create jobs, the strategists reason, then inflation could erode the euro's value.

Mr Avinash Persaud, currency strategist at J.P. Morgan in London, takes a somewhat contrary view. A strong jobs pact, he says, could mean a strong euro in the long term. That is because such a pact would probably raise economic growth in Europe, and thus lead to higher interest rates.

Without a jobs pact, says Mr Persaud, a future European central bank would have to leave interest rates low in order to stimulate growth. In that case the euro would likely be weak against the dollar.

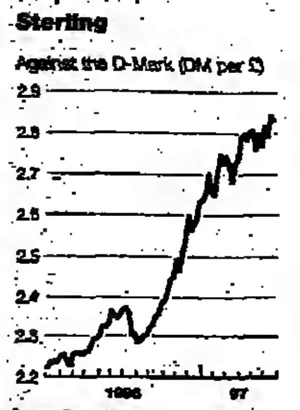
But strategists noted yesterday that there seemed to be no signs that the jobs pact would be accompanied by new spending. "Nobody has any money," said Mr Paul Horne, international economist at Smith Barney in Paris. The jobs pact might therefore mean "zilch", he warned.

■ The Australian dollar fell again yesterday as prospects grew of a fifth rate cut in a year. After data last week showed a rise in Australian unemployment for May, Mr Peter Costello, treasurer, yesterday forecast lower interest rates.

Many economists said that if the US Federal Reserve left rates unchanged after its Open Market Committee meeting on July 1 and 2, Australia would probably cut its rates. Official cash rates stand at 5.5 per cent. The Aussie dollar softened 0.4 cents against the US dollar yesterday to A$1.3357.

■ Pound in New York

Jun 16	—Latest—	—Prev. close—
£ spot	1.6375	1.6355
1 mth	1.6364	1.6344
3 mth	1.6332	1.6319
1 yr	1.6242	1.6210



Source: Datastream

■ OTHER CURRENCIES

Jun 16	£	$
Czech Rp	52.9387 - 52.9742	32.3250 - 32.3550
Hungary	[illegible]	[illegible]
Iran	[illegible]	[illegible]
Kuwait	[illegible]	[illegible]
Poland	[illegible]	[illegible]
Russia	[illegible]	[illegible]
UAE	[illegible]	[illegible]

POUND SPOT FORWARD AGAINST THE POUND

Jun 16	Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe												
Austria (Sch)	[illegible]											
Belgium (BFr)	[illegible]											
Denmark (DKr)	[illegible]											
Finland (FM)	[illegible]											
France (FFr)	[illegible]											
Germany (DM)	[illegible]											
Greece (Dr)	[illegible]											
Ireland (I£)	[illegible]											
Italy (L)	[illegible]											
Luxembourg (LFr)	[illegible]											
Netherlands (Fl)	[illegible]											
Norway (NKr)	[illegible]											
Portugal (Es)	[illegible]											
Spain (Pta)	[illegible]											
Sweden (SKr)	[illegible]											
Switzerland (SFr)	[illegible]											
UK (£)	[illegible]											
Ecu	[illegible]											
SDR†	[illegible]											
Americas												
Argentina (Peso)	[illegible]											
Brazil (R$)	[illegible]											
Canada (C$)	[illegible]											
Mexico (New Peso)	[illegible]											
USA ($)	[illegible]											
Pacific/Middle East/Africa												
Australia (A$)	[illegible]											
Hong Kong (HK$)	[illegible]											
India (Rs)	[illegible]											
Israel (Shk)	[illegible]											
Japan (Y)	[illegible]											
Malaysia (M$)	[illegible]											
New Zealand (NZ$)	[illegible]											
Philippines (Peso)	[illegible]											
Saudi Arabia (SR)	[illegible]											
Singapore (S$)	[illegible]											
South Africa (R)	[illegible]											
South Korea (Won)	[illegible]											
Taiwan (T$)	[illegible]											
Thailand (Bt)	[illegible]											

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jun 16	Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P. Morgan index
Europe												
Austria (Sch)	[illegible]											
Belgium (BFr)	[illegible]											
Denmark (DKr)	[illegible]											
Finland (FM)	[illegible]											
France (FFr)	[illegible]											
Germany (DM)	[illegible]											
Greece (Dr)	[illegible]											
Ireland (I£)	[illegible]											
Italy (L)	[illegible]											
Luxembourg (LFr)	[illegible]											
Netherlands (Fl)	[illegible]											
Norway (NKr)	[illegible]											
Portugal (Es)	[illegible]											
Spain (Pta)	[illegible]											
Sweden (SKr)	[illegible]											
Switzerland (SFr)	[illegible]											
UK (£)	[illegible]											
Ecu	[illegible]											
SDR†	[illegible]											
Americas												
Argentina (Peso)	[illegible]											
Brazil (R$)	[illegible]											
Canada (C$)	[illegible]											
Mexico (New Peso)	[illegible]											
USA ($)	[illegible]											
Pacific/Middle East/Africa												
Australia (A$)	[illegible]											
Hong Kong (HK$)	[illegible]											
India (Rs)	[illegible]											
Israel (Shk)	[illegible]											
Japan (Y)	[illegible]											
Malaysia (M$)	[illegible]											
New Zealand (NZ$)	[illegible]											
Philippines (Peso)	[illegible]											
Saudi Arabia (SR)	[illegible]											
Singapore (S$)	[illegible]											
South Africa (R)	[illegible]											
South Korea (Won)	[illegible]											
Taiwan (T$)	[illegible]											
Thailand (Bt)	[illegible]											

WORLD INTEREST RATES

MONEY RATES

June 16	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	3¼	3⅛	3¼	3⅛	3⅜	6.00	2.50	-
France	3¼	3⅛	3¼	3⅜	3⅜	3.10	-	4.75
Germany	2⅞	3⅛	3⅛	3⅛	3¼	4.50	2.50	3.00
Ireland	5⅞	6¼	6⅜	6⅜	6½	-	-	6.75
Italy	6⅞	6⅞	6⅞	6¾	6⅞	8.25	6.75	6.82
Netherlands	3	3⅛	3⅛	3⅛	3⅜	-	2.50	2.90
Switzerland	⅝	1⅛	1⅛	1⅛	1⅛	-	1.00	-
US	5⅞	5⅞	5¾	5⅞	6⅛	-	5.00	-
Japan	½	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
■ $ LIBOR FT London								
Interbank Fixing	-	5⅞	5⅞	5⅞	6⅛	-	-	-
US Dollar CDs	-	5.45	5.55	5.63	5.83	-	-	-
ECU Linked Ds	-	4⅛	4⅛	4⅛	4⅛	-	-	-
SDR Linked Ds	-	3⅞	3⅞	3⅞	3⅞	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo Mitsubishi, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Jun 16	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	3⅛ - 3¼	3⅜ - 3¼	3¼ - 3⅛	3⅜ - 3¼	3⅜ - 3⅜	3⅞ - 3⅜
Danish Krone	3⅞ - 3¼	3⅜ - 3½	3⅝ - 3½	3⅝ - 3⅜	3⅜ - 3⅜	3⅞ - 3¾
German Mark	3⅛ - 3	3⅛ - 2⅞	3⅛ - 2⅞	3⅛ - 2⅞	3¼ - 3	3⅜ - 3⅛
Dutch Guilder	2⅞ - 2⅞	3⅛ - 2⅞	3⅛ - 3⅛	3⅛ - 3⅛	3⅜ - 3⅜	3⅜ - 3¼
French Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portuguese Esc.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spanish Peseta	5⅜ - 3¼	5⅜ - 5⅛	5¼ - 5⅛	5⅜ - 5⅛	5⅛ - 5⅜	5⅜ - 5⅛
Sterling	6½ - 6¼	6⅞ - 6⅝	6⅝ - 6½	6⅞ - 6⅞	6⅞ - 6⅞	7⅛ - 6⅞
Swiss Franc	1 - ½	1 - ⅞	1⅛ - 1⅛	1⅛ - 1⅛	1⅛ - 1⅛	1⅜ - 1⅛
Canadian Dollar	3⅛ - 2⅞	3⅛ - 2⅞	3⅛ - 2⅞	3¼ - 3	3⅜ - 3⅜	3⅞ - 3⅞
US Dollar	3½ - 5⅛	5⅝ - 5⅞	5⅝ - 5⅛	5⅞ - 5⅞	5⅞ - 5⅞	6⅛ - 5⅞
Italian Lira	7⅛ - 6⅞	6⅞ - 6⅞	6⅞ - 6⅞	6⅞ - 6⅞	6⅞ - 6⅞	6⅞ - 6⅞
Japanese Yen	[illegible] - ½	[illegible]	½ - [illegible]	[illegible]	[illegible]	[illegible]
Asian $Sing	3⅛ - 3	3⅛ - 3⅞	3⅛ - 3⅞	3⅛ - 3⅞	3⅛ - 3⅜	3⅞ - 3⅞

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	96.60	96.59	-0.01	96.61	96.59	5,747	43,342
Sep	96.55	96.59	+0.03	96.62	96.53	43,028	64,877
Dec	96.54	96.59	+0.05	96.61	96.52	18,260	32,807

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	96.88	96.88	+0.01	96.88	96.87	6999	170712
Sep	96.83	96.82	-0.01	96.84	96.82	30523	265748
Dec	96.74	96.78	-0.01	96.75	96.73	16827	264722
Mar	96.64	96.63	-0.02	96.66	96.63	13187	233673

■ ONE MONTH EUROMARK FUTURES (LIFFE)* DM3m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	96.90	96.91	-	96.60	96.60	6	3826
Jul		96.90	-			0	425
Aug		96.88	-			0	190
Sep		96.80	-			0	3

■ THREE MONTH EUROLIRA FUTURES (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	93.13	93.13	-0.05	93.17	93.14	7924	50823
Sep	93.39	93.37	-0.03	93.42	93.35	22664	110086
Dec	93.69	93.70	-0.01	93.74	93.69	7794	65511
Mar	93.87	93.91	+0.04	93.93	93.87	6061	42606

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	98.71	98.73	+0.03	98.72	98.69	2054	30169
Sep	98.59	98.54	-0.04	98.61	98.48	11433	66806
Dec	98.42	98.38	-0.03	98.43	98.32	4244	38799
Mar	98.26	98.26	-0.02	98.27	98.21	505	15093

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep		99.31	-0.02			0	n/a
Dec	99.08	99.08	-0.03	99.08	99.08	3	n/a
Mar		98.87	-0.02			0	n/a

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	95.85	95.82	-0.03	95.85	95.83	433	5200
Sep	95.88	95.90	+0.02	95.92	95.87	1748	7813
Dec	95.84	95.87	+0.03	95.86	95.84	254	5639
Mar	95.80	95.82	+0.03	95.81	95.80	26	4121

* LIFFE futures also traded on APT

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Jun	Sep	Dec	PUTS Jun	Sep	Dec
9300	0.13	0.49	0.83	0	0.12	0.13
9325	0	0.31	0.63	0.12	0.19	0.18
9350	0	0.17	0.47	0.37	0.30	0.27

Est. vol. total, Calls 361 Puts 170. Previous day's open int., Calls 190032 Puts 93797

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Jun 16	BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium (BFr)	[illegible]																
Denmark (DKr)	[illegible]																
France (FFr)	[illegible]																
Germany (DM)	[illegible]																
Ireland (I£)	[illegible]																
Italy (L)	[illegible]																
Netherlands (Fl)	[illegible]																
Norway (NKr)	[illegible]																
Portugal (Es)	[illegible]																
Spain (Pta)	[illegible]																
Sweden (SKr)	[illegible]																
Switzerland (SFr)	[illegible]																
UK (£)	[illegible]																
Canada (C$)	[illegible]																
USA ($)	[illegible]																
Japan (Y)	[illegible]																
Ecu	[illegible]																

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.5765	0.5771	+0.0016	0.5786	0.5756	8,788	40,859
Sep	0.5795	0.5806	+0.0016	0.5824	0.5784	34,997	64,568
Dec	0.5864	0.5864	+0.0035	0.5864	0.5855	277	796

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.6930	0.6940	+0.0012	0.6940	0.6927	3,429	17,998
Sep	0.6995	0.7002	-0.0003	0.7020	0.6994	15,551	31,097
Dec	0.7100	0.7100	+0.0018	0.7100	0.7100	22	766

■ JAPANESE YEN FUTURES (IMM) Yen 12.5m per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.8716	0.8795	+0.0089	0.8812	0.8712	6,209	38,132
Sep	0.8830	0.8911	+0.0081	0.8932	0.8816	23,365	47,753
Dec	0.9035	0.9030	+0.0084	0.9035	0.9030	52	1,013

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	1.6356	1.6350	-0.0014	1.6370	1.6350	3,057	23,584
Sep	1.6312	1.6310	-0.0018	1.6340	1.6300	21,268	31,023
Dec	-	1.6280	-	-	1.6280	4	127

UK INTEREST RATES

LONDON MONEY RATES

Jun 16	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	6¾ - 3	6½ - 6¼	6⅜ - 6⅞	6⅞ - 6⅞	6⅞ - 6¾	7⅛ - 6⅞
Sterling CDs	-	-	6⅞ - 6⅞	6⅝ - 6⅝	6¾ - 6⅞	6⅞ - 6⅞
Treasury Bills	-	-	5⅞ - 6⅜	6⅞ - 6⅞	-	-
Bank Bills	-	-	6⅞ - 6⅞	6½ - 6⅞	6⅞ - 6⅞	-
Local authority deps.	6⅜ - 6¼	6½ - 6⅜	6⅞ - 6⅞	6⅞ - 6⅞	6⅞ - 6¾	7⅛ - 6⅞
Discount Market deps	6⅞ - 6¼	6⅜ - 6¼	-	-	-	-

UK clearing bank base lending rate 6½ per cent from Jun 6, 1997

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2½	5½	3	6	4¾

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1¼pc.
Ave. tender rate of discount on Jun 13, 6.3110pc. ECGD fixed rate Stg. Export Finance. Make up day May 30, 1997. Agreed rate for period Jun 25, 1997 to Jul 25, 1997, Scheme III 7.78pc. Reference rate for period May 1, 1997 to May 30, 1997, Schemes IV & V 6.530pc. Finance House Base Rate 7pc from Jun 1, 1997

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	93.29	93.30	+0.01	93.30	93.28	8346	95087
Sep	93.16	93.16	+0.03	93.16	93.14	16047	129925
Dec	92.96	93.02	+0.03	93.02	92.98	11344	111007
Mar	92.89	92.92	+0.03	92.93	92.93	4100	69098
Jun	92.82	92.85	+0.03	92.85	92.81	1700	46333

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Jun	Sep	Dec	PUTS Jun	Sep	Dec
9325	0.06	0.06	0.06	0.01	0.13	0.29
9350	0	0.01	0.01	0.20	0.33	0.49
9375	0	0	0	0.45	0.57	0.73

Est. vol. total, Calls 495 Puts 2820. Previous day's open int., Calls 184074 Puts 183619

EMS EUROPEAN CURRENCY UNIT RATES

Jun 16	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Ireland	0.796709	0.747547	+0.001702	-6.41	9.51	43
Finland	5.85424	5.87535	-0.00628	0.36	2.22	-2
Portugal	197.398	198.365	-0.09	0.49	2.09	-3
Italy	1906.48	1925.86	-1.54	1.01	1.57	-7
Spain	163.826	165.797	-0.084	1.20	1.37	-9
Denmark	7.34555	7.47200	+0.00114	1.72	0.85	-12
Netherlands	2.16979	2.20753	+0.00016	1.74	0.83	-13
Germany	1.92573	1.96279	+0.00047	1.92	0.65	-16
Austria	13.5485	13.8127	+0.0031	1.95	0.63	-14
Belgium	39.7161	40.5065	+0.012	1.99	0.59	-13
France	6.45863	6.62578	+0.00568	2.58	0.00	-22
NON ERM MEMBERS						
Greece	295.269	310.839	-0.054	5.27	-2.55	-
UK	0.793103	0.692813	-0.002279	-12.65	17.44	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate. 17/9/92: Sterling suspended from ERM. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Jun	Jul	Aug	PUTS Jun	Jul	Aug
1.620	1.59	2.23	2.81	-	0.68	1.44
1.630	0.50	1.60	2.29	-	1.05	1.87
1.640	0.01	1.10	1.80	0.32	1.58	2.39

Previous day's vol., Calls 353 Puts 748. Prev. day's open int., Calls 35,446 Puts 38,710

■ PHILADELPHIA SE DM/$ OPTIONS DM62,500 ($ per DM)

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	94.23	94.23	-	94.23	94.22	62,742	339,358
Sep	94.14	94.14	-	94.15	94.14	154,818	530,678
Dec	93.98	93.97	-	93.98	93.96	147,036	427,169

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun.	95.08	95.10	-	95.10	95.08	400	2,267
Sep	94.81	94.81	+0.02	94.81	94.80	333	6,773

All Open interest figs. are for previous day

■ EURODOLLAR OPTIONS (LIFFE) $1m points of 100%

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

BASE LENDING RATES

	%		%		%
Adam & Company	6.50	Duncan Lawrie	6.25	●Singer & Friedlander	6.25
Allied Irish Bank (GB)	6.50	Exeter Bank Limited	7.50	●Smith & Williamson Secs	6.50
●Henry Ansbacher	6.50	Financial & Gen Bank	7.50	Scottish Widows Bank	6.50
Bank of Baroda	6.50	●Robert Fleming & Co	6.50	TSB	6.50
Banco Bilbao Vizcaya	6.50	●Guinness Mahon	6.50	United Bank of Kuwait	6.25
Bank of Cyprus	6.50	Habib Bank AG Zurich	6.50	Unity Trust Bank Plc	6.50
Bank of Ireland	6.50	●Hambros Bank	6.50	Western Trust	6.50
Bank of India	6.50	Heritable & Gen Inv Bk	6.50	Whiteaway Laidlaw	6.50
Bank of Scotland	6.50	C. Hoare & Co	6.50	Yorkshire Bank	6.50
Barclays Bank	6.50	Hongkong & Shanghai	6.50		
Brit Bk of Mid East	6.50	Investec Bank (UK) Ltd	6.50		
●Brown Shipley & Co Ltd	6.25	Julian Hodge Bank	6.50		
Citibank NA	6.50	●Leopold Joseph & Sons	6.50		
Clydesdale Bank	6.50	Lloyds Bank	6.50		
The Co-operative Bank	6.50	Midland Bank	6.25		
Coutts & Co	6.50	NatWestminster	6.50		
Cyprus Popular Bank	6.50	●Rea Brothers	6.50		
		Royal Bk of Scotland	6.25		

● Members of London Investment Banking Association
* In administration

COMMODITIES AND AGRICULTURE

Call for more gold reserve details

By Kenneth Gooding in Prague

Central banks were yesterday urged to end the "fear factor" haunting the gold market by providing more information about what they intend to do with the gold in their official reserves.

Worries about central bank sales have helped to drive down the gold price this year, and there is particular concern about the policies of European banks ahead of the formation of a European Central Bank.

Mr Robert Guy, a director of N.M. Rothschild and Sons, told the Financial Times Gold Conference in Prague that there was a lack of information on sales.

"I hope those involved in the creation of the ECB will break their Trappist vows and share their views with the rest of us," he said. "In these days of transparency and accountability, I find it truly remarkable that we can still be given no clear picture about the role of gold in the event that European monetary union proceeds."

Mr Andy Smith, precious metals analyst at Union Bank of Switzerland, suggested there was good reason to believe the gold price would go up if central banks intending to sell some gold gave full details in advance.

Gold auctions could be organised under the auspices of an official institution to enable central banks to sell over a defined period of time.

Mr Jean-Pierre Patat, general manager of the foreign department, Banque de France, insisted that concern about the impact on the gold market of European monetary union was largely unfounded. Central banks did not want to destabilise markets. But he admitted that he had no precise idea whether gold would have an important role to play when the ECB was set up.

Mr Tony Warwick-Ching, of the precious metals team at CRU International, pointed out that central banks once absorbed huge quantities of gold but "it is now difficult to see them offering any sustained demand for gold in the long term".

He added to the prevailing gloom by suggesting gold had become a one-product metal, as 80 per cent now went to jewellery – but that the next 10 years were likely to be much tougher for jewellery than the 1980s and 1990s, "the golden age for jewellery". Two of three dynamos powering jewellery demand in the past two decades would largely be absent in the future: liberalisation by countries that previously blocked gold imports, and a falling gold price.

Mr Robert Davies, head of global natural resources at ING Barings Securities, said present gold prices were creating substantial difficulties for mining companies. Many gold miners were not able to provide the funds they needed from cash flow, but had to keep going back to equity markets increasingly and incurring new debt. This could lead to more consolidation in the gold sector.

Mr Philip Martin, managing director of mining finance at Gordon Capital Corporation, also predicted increased merger and acquisition activity among gold mining companies. He said after the Bre-X scandal investors had pulled back and were reluctant to re-enter the market, particularly the smaller, more speculative portion. "We have seen the end of a 20-year cycle of expansion for the industry which will take a few years to begin anew," he said.

India under pressure to ban cotton exports

By Kunal Bose in Calcutta

The Indian government is facing pressure to ban exports of cotton, as new estimates show the country is set for a record crop.

Textile industry officials say a recent jump in prices means there is not enough good-quality cotton to supply those producing for export.

The East India Cotton Association says the country's harvest is set to reach 16.75m 170 kg bales for the 1996-97 season (October to September), a 2.92 per cent increase on last year's record crop. By the end of May, farmers had sold more than 16.1m bales of cotton.

Trade officials said the Cotton Advisory Board, which forecast a crop of 16m bales in February, would revise its estimates later this month. The cotton-growing states in the west and the north produced a bigger crop, but there was a shortfall in Andhra Pradesh and Karnataka in the south.

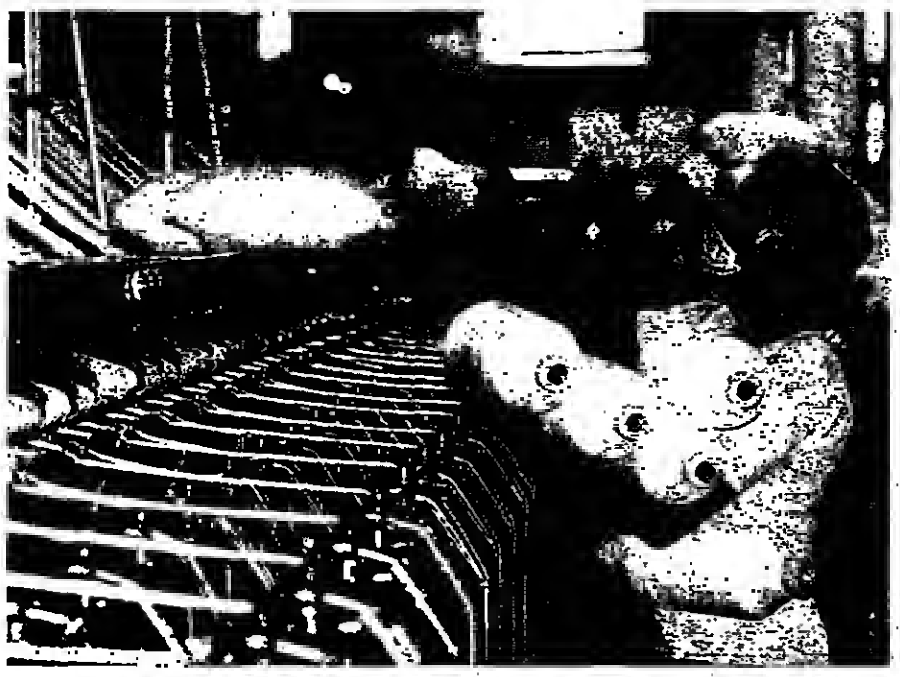
"We have been lucky this time that, even though there was an incidence of pest attack in Pakistan, our crop in Rajasthan, Punjab and Haryana was spared," said the North India Cotton Association. Nevertheless, reports of damage to the Pakistani crop have led to an increase in prices of Punjab varieties of cotton of more than 10 per cent in the past fortnight. Prices of other varieties are also rising.

Mr S.K. Hada, president of the Eastern India Textile Mills' Association, said the "government has released 1.66m bales for export in the current season and the trading houses have made export contracts for nearly 1m bales. In view of the rising cotton prices, the government must not allow any further export of cotton. The textile mills producing yarns and fabrics for the export market are not getting enough supply of good quality cotton."

The textile industry is also concerned about damage from hail-storms and rain to sowing in parts of north India. NICA said "a large portion of the sowing done last month must have withered. Resowing has got to be done in many places. But we have not as yet made an assessment of the damage. It is likely that the harvesting of the 1997-98 crop in the affected regions of the north will be delayed by about a fortnight."

Farmers' organisations say the recent improvement in cotton prices is an incentive once again to commit nearly 9m hectares to the crop. Putting a ban on exports at this stage will lead to a collapse of cotton prices and this in turn will lead to diversion of land to other crops, they say.

Trade officials say cotton output next season will be between 15.5m and 15.7m bales.



Tony Andrews

Textile mills producing for the export market are short of good quality cotton

Doubts on Iraqi exports lift oil

MARKETS REPORT

By Robert Corzine and Peter John

Uncertainty over the pace of Iraqi crude exports under the renewed UN oil-for-food plan continued to influence world oil markets yesterday.

The bellwether Brent Blend for August delivery was quoted at $17.90 a barrel in late trading on London's International Petroleum Exchange, up 14 cents on Friday's close.

The Middle East Economic Survey reported that Iraq, which will be allowed to export $2bn worth of oil over the next six months, will not be ready to resume deliveries until late June or July, when a new humanitarian aid delivery plan is expected.

Oil traders have also begun to watch for signs of dissent among members of the Organisation of Petroleum Exporting Countries ahead of next week's meeting in Vienna. A roll-over of the present production ceiling has been predicted.

On the London Metal Exchange, copper was locked in a narrow range after attacking the $2,600 level last week.

Three-month copper finished afternoon "kerb" trading little changed at $2,588 a tonne, down $3 from Friday. In the morning it hit a low of $2,565, but hovered above $2,580 in the afternoon. Analysts said the market was still overbought and might have trouble challenging last week's $2,609 peak in the near-term.

Other metals followed copper's lead, testing the downside. Nickel fell $90 to $7,250, failing to respond to problems at Inco and Norilsk. Alnminium waa trapped in a range between $1,577 and $1,585, ending down $4 at $1,582.

COMMODITIES NEWS DIGEST

Congo set to clash with De Beers

The new government of the Congo, formerly Zaire, is intent on breaking what it sees as a monopoly held by De Beers, the country's mines minister said yesterday. Mr Florent Kambale Kabila Mututulo said mining monopolies would not be allowed to operate in the mineral-rich country.

Some companies monopolised the mining industry under the previous government of President Mobutu Sese Seko, said Mr Mututulo – and contracts would now be renegotiated. "One thing we don't want is a monopoly, that is why there is a clash between De Beers and the government," he added.

De Beers, of South Africa, held a contract with the former government to buy production from Societe de Miniere de Bakwanga (MIBA). The company – which controls the world's diamond industry through the London-based Central Selling Organisation – has since re-opened its diamond buying office in the diamond capital Mbuji-Mayi, but faces competition from several other diamond buying companies.

Mr Mututulo said the government would only allow foreign companies to continue their operations if they fell within the government's guidelines. He indicated that the country was keen to do business and assist the development of its huge mineral resources – which has been left largely unexplored during decades of rule under Mobutu. *Reuter, Mauritius*

Minorco expects nickel start

Minorco, the international natural resources company, said it was soon to start the development of its Loma de Hierro nickel deposit in Venezuela. "The only thing we need to go ahead with this project, is an environmental permit and confirmation of a tax exemption," said Mr Christopher van Tienhoven at Minorco in Caracas. The project would cost about $450m and would be equally debt and equity financed, he said. Local investors hold a 15 per cent share in the project.

The open-pit mine is to produce 17,000 tonnes of ferro-nickel pellets annually from 2000, over a period of 27 to 30 years. The production rate will be 1.2m dry tonnes of ore per annum with an average nickel content of 1.48 per cent. To meet the project's need of 120 litres of water per second, the company will have to build a 22 hectare dam on a nearby river for the processing plant. Minorco hopes to begin operations towards the end of the year with the construction of a road and basic infrastructure. *Raymond Colitt, Caracas*

Big gas finds in Philippines

Shell Philippines Exploration (Spex) and Occidental Philippines (Oxy), the oil exploration groups, have identified one oil and five natural gas prospects which may justify an additional investment of $3bn in developing the facilities. Mr Guillermo Balce, assistant secretary of energy, said the five gas prospects near the Camago-Malampaya field together could represent 1,970bn cu ft to 3,490bn cu ft. The oil prospect could yield 124m barrels of crude oil, he said. Total reserves of natural gas in the field are estimated at 2,500bn to 3,200 cu ft and of crude oil at 28m to 59m barrels. *Justin Marozzi, Manila*

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1556-7	1583-4
Previous	1566.5-67.5	1593-93.5
High/low	1553/1554	1586-7
AM Official	1554-4.5	1581.5-2.8
Kerb close		1582-3
Open int.	258,238	
Total daily turnover	64,976	

■ ALUMINIUM ALLOY ($ per tonne)

Close	1445-50	1474-5
Previous	1452-57	1477-80
High/low		1475/1472
AM Official	1447-52	1470-75
Kerb close		1470-75
Open int.	5,642	
Total daily turnover	1,106	

■ LEAD ($ per tonne)

Close	810-11	623-4
Previous	621-22	631-32
High/low	609.5	630/618
AM Official	609.5-10.0	622-3
Kerb close		621-2
Open int.	34,453	
Total daily turnover	7,284	

■ NICKEL ($ per tonne)

Close	7160-70	7270-75
Previous	7250-60	7355-60
High/low	7151/7145	7315/7240
AM Official	7145-7	7255-60
Kerb close		7250-60
Open int.	54,338	
Total daily turnover	12,658	

■ TIN ($ per tonne)

Close	5510-20	5550-60
Previous	5585-95	5620-25
High/low		5580/5540
AM Official	5515-20	5560-65
Kerb close		5560-70
Open int.	15,958	
Total daily turnover	3,838	

■ ZINC, special high grade ($ per tonne)

Close	1347.5-8.5	1370-1
Previous	1348.5-49.5	1370-71
High/low	1352	1376/1369
AM Official	1351.5-2.0	1372.5-3.0
Kerb close		1372.5-3.5
Open int.	95,163	
Total daily turnover	17,953	

■ COPPER, grade A ($ per tonne)

Close	2677-80	2587-8
Previous	2703-05	2600-601
High/low	2576	2588/2563
AM Official	2676.5-7.5	2578-8
Kerb close		2587-8
Open int.	146,402	
Total daily turnover	47,949	

■ LME AM Official £/$ rate: 1.6361
LME Closing £/$ rate: 1.6386

Spot: 1.6358 3 mths: 1.6333 6 mths: 1.6295 9 mths: 1.6259

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	122.00	+1.75	122.00	120.50	454	1,517
Jul	122.20	+1.60	122.30	120.20	7,446	30,362
Aug	120.40	+1.40	120.45	119.00	177	2,803
Sep	119.70	+1.40	119.70	118.30	3,889	9,121
Oct	117.50	+1.40	–	–	21	1,176
Nov	115.90	+1.50	–	–	1	1,227
Total					12,636	58,544

PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	341.70-342.20		
Opening	340.70-341.00		
Morning fix	340.95	208.303	491.991
Afternoon fix	341.50	208.813	491.692
Day's High	341.90-342.20		
Day's Low	340.70-341.00		
Previous close	341.30-341.80		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	4.38	6 months	4.35
2 months	4.38	12 months	4.31
3 months	4.38		

Silver Fix	p/troy oz.	US cts equiv.
Spot	287.50	470.50
3 months	291.45	475.95
6 months	295.60	481.60
1 year	303.65	492.00
Gold Coins	**$ price**	**£ equiv.**
Krugerrand	344-346	210-212
Maple Leaf	–	–
New Sovereign	80-83	48-50

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	342.9	+2.0	342.3	341.8	18	341
Aug	344.8	+1.7	345.0	342.9	17,724	75,635
Oct	347.3	+1.7	347.0	346.0	768	7,945
Dec	349.8	+1.7	350.2	348.1	272	25,308
Feb	352.4	+1.7	–	350.7	18	9,765
Apr	354.8	+1.8	–	–	367	4,353
Total					19,074	164,782

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

Jul	423.9	-2.4	429.0	415.0	3,131	11,692
Oct	405.9	-0.4	408.8	396.0	1,258	6,648
Jan	396.9	-1.4	400.0	390.0	104	1,417
Apr	396.9	-1.4	391.0	391.0	56	74
Total					4,549	19,831

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

Jun	210.80	-12.60	213.00	201.00	28	131
Sep	180.80	-7.60	187.50	177.00	629	6,149
Dec	173.80	-8.70	180.00	172.25	109	693
Jun	173.80	-8.70	–	–	–	5
Total					764	7,288

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

Jun	467.9	+1.4	–	–	21	2
Jul	468.7	+1.2	470.0	467.5	18,934	45,802
Sep	473.4	+1.2	475.0	472.5	4,362	15,764
Dec	480.2	+1.2	482.5	480.0	496	8,423
Jan	482.2	+1.2	–	–	–	17
Mar	487.0	+1.2	488.5	486.5	173	8,645
Total					24,186	88,842

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jul	19.07	+0.24	19.18	18.77	54,701	51,893
Aug	19.28	+0.22	19.34	18.97	34,443	83,034
Sep	19.34	+0.15	19.45	19.13	21,577	36,785
Oct	19.44	+0.14	19.52	19.25	5,025	25,297
Nov	19.52	+0.12	19.60	19.37	3,167	16,809
Dec	19.58	+0.11	19.65	19.42	7,955	37,686
Total					119,874	402,317

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Aug	17.89	+0.13	17.98	17.72	12,561	80,496
Sep	18.10	+0.19	18.15	17.93	1,881	21,559
Oct	18.25	+0.17	18.32	18.08	736	11,578
Nov	18.46	+0.22	18.47	18.24	259	5,259
Dec	18.48	+0.15	18.50	18.32	1,056	11,273
Jan	18.39	+0.06	18.39	18.33	52	6,954
Total					n/a	n/a

■ HEATING OIL NYMEX (42,000 US galls., c/US galls)

	Latest price	Day's change	High	Low	Vol	Open int
Jul	52.10	+0.46	52.35	51.30	10,359	33,343
Aug	52.60	+0.46	52.75	51.90	4,152	26,685
Sep	53.50	+0.46	53.60	52.90	1,215	14,199
Oct	54.45	+0.51	54.55	53.95	798	12,754
Nov	55.25	+0.41	55.56	54.95	560	11,107
Dec	56.30	+0.51	56.30	55.65	1,473	16,116
Total					20,576	143,868

■ GAS OIL IPE ($/tonne)

	Latest price	Day's change	High	Low	Vol	Open int
Jul	161.75	-1.00	164.00	160.50	6,213	19,796
Aug	163.75	+0.75	164.50	162.50	3,395	10,119
Sep	166.00	-0.50	166.25	164.75	1,297	5,993
Oct	168.75	+0.50	168.75	167.25	462	6,582
Nov	170.50	+0.50	170.50	169.25	140	3,279
Dec	172.00	-0.25	172.00	170.75	672	9,259
Total					11,549	61,516

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Vol	Open int
Jul	2.165	+0.016	2.180	2.140	22,221	39,417
Aug	2.185	+0.018	2.200	2.170	7,702	28,164
Sep	2.175	+0.012	2.196	2.165	2,798	17,864
Oct	2.180	+0.007	2.190	2.170	2,254	20,488
Nov	2.310	+0.010	2.315	2.300	1,298	9,121
Dec	2.448	+0.008	2.460	2.440	1,346	12,742
Total					42,840	196,360

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Jul	58.10	+0.70	58.25	56.85	12,904	32,445
Aug	57.45	+0.62	57.65	56.40	4,735	23,929
Sep	56.70	+0.55	56.90	55.90	1,395	[illegible]
Oct	55.65	+0.60	55.60	55.55	1,190	[illegible]
Nov	54.40	–	–	–	99	[illegible]
Dec	54.20	+0.65	54.20	54.00	126	4,620
Total					20,535	[illegible]

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	81.45	-0.30	81.55	80.95	48	803
Sep	86.50	–	–	–	–	176
Nov	89.15	-0.10	89.50	89.00	64	3,586
Jan	91.15	-0.10	91.10	91.10	71	1,728
Mar	93.15	-0.10	93.30	93.30	65	883
May	95.15	-0.10	95.30	95.30	–	477
Total					118	7,884

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

Jul	342.75	-9.75	353.00	342.50	11,298	38,387
Sep	350.75	-10.50	361.00	350.00	7,372	25,243
Dec	363.50	-10.00	373.00	363.00	3,653	19,802
Mar	369.00	-10.00	371.00	368.50	198	2,548
May	360.50	-5.75	361.00	359.00	22	112
Jul	351.00	-6.25	353.00	351.00	178	882
Total					22,725	84,986

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

Jul	268.50	-3	272.00	268.25	20,861	94,068
Sep	253.50	-5.50	257.50	252.00	7,117	40,278
Dec	248.25	-5.75	253.50	248.00	13,528	115,787
Mar	255.50	-4.75	258.50	255.00	1,297	13,467
May	260.00	-4.50	261.00	260.00	676	2,049
Jul	263.00	-5.25	267.00	263.00	275	3,583
Total					43,815	273,871

■ BARLEY LIFFE (100 tonnes; £ per tonne)

Sep	81.50	–	81.50	81.50	5	37
Nov	84.35	-0.15	84.50	84.35	18	1,136
Jan	86.50	–	86.50	86.50	3	161
Mar	88.50	–	88.50	88.50	3	14
May	90.00	–	90.00	90.00	1	3
Total					30	1,351

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

Jul	838.50	-16	854.50	836.00	44,827	55,957
Aug	773.75	-17	789.75	773.00	15,070	27,877
Sep	700.50	-10.75	708.00	700.00	2,411	10,224
Nov	668.00	-7.5	673.50	662.00	13,274	52,228
Jan	667.50	-6	670.00	664.00	647	7,823
Mar	670.00	-9	673.00	668.50	44	1,931
Total					77,336	158,329

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

Jul	23.13	-0.2	23.45	23.08	5,973	38,450
Aug	23.35	-0.2	23.75	23.28	2,280	19,213
Sep	23.56	-0.15	23.61	23.48	1,038	9,289
Oct	23.63	-0.2	23.89	23.60	735	11,887
Dec	23.83	-0.25	23.97	23.78	1,553	21,368
Jan	23.96	-0.27	24.00	23.95	82	1,591
Total					11,919	103,442

■ SOYABEAN MEAL CBT (100 tons; $/ton)

Jul	276.4	-4.7	280.5	276.0	16,946	34,834
Aug	251.9	-5.4	258.8	251.8	9,243	17,989
Sep	233.4	-5.1	236.0	233.2	3,275	12,856
Oct	221.9	-4.6	224.8	221.7	888	13,154
Dec	213.8	-4.3	217.0	213.5	4,183	26,351
Jan	211.5	-4	213.0	210.8	180	2,695
Total					34,845	112,286

■ POTATOES LIFFE (20 tonnes; £ per tonne)

Nov	38.0	-2.0	–	–	–	8
Mar	78.0	-2.0	–	–	–	–
Apr	76.5	-2.5	78.0	75.0	133	724
May	98.0	-2.0	–	–	–	–
Jun	104.0	-2.8	–	–	–	–
Total					133	788

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

Jun	1280	-5	1280	1270	11	419
Jul	1200	–	1207	1200	14	1,279
Aug	1195	+5	1180	1180	13	457
Oct	1355	+5	1355	1350	25	622
Jan	1385	+10	1385	1385	–	57
Total					88	2,834

	Close	Prev
BFI	1285	1286

FUTURES DATA
All futures data supplied by CMS.

Tea
There was active demand for tea, The Tea Brokers' Association reports. Demand was fair for landed teas. The few bright East Africans on offer were between 4 pence and 6 pence easier. Mediums also declined, by up to 8 pence. Plainer descriptions remained firm. There was good competition for offshore teas. CEntral Africans were irregular and sometimes dearer, but Kenyas moved lower. Quotations for this sale. Landed: best available 150.6p; good 146.6p; good medium 138.6p; medium 133p; low medium 105p. The top price this week was 151p for a Kenya PF1.

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	1106	-10	1122	1103	1,471	19,476
Sep	1123	-5	1140	1119	2,329	28,234
Dec	1117	-8	1123	1112	843	32,849
Mar	1126	+1	1131	1123	1,137	40,939
May	1136	–	1139	1135	289	18,221
Jul	1148	+1	1151	1148	24	5,349
Total					6,400	184,818

■ COCOA CSCE (10 tonnes; $/tonnes)

Jul	1581	-11	1588	1568	3,979	4,821
Sep	1629	-3	1635	1614	13,894	34,373
Dec	1668	-3	1672	1651	2,087	19,895
Mar	1700	–	1700	1680	1,534	23,404
May	1720	–	–	1720	25	5,751
Jul	1740	–	–	–	–	575
Total					22,080	96,866

■ COCOA (ICCO) (SDR's/tonne)

Jun 13	Price	Prev. day
Daily	1238.10	1192.22

■ COFFEE LIFFE (5 tonnes; $/tonne)

Jul	1751	-4	1753	1698	2,061	12,674
Sep	1778	-7	1780	1720	3,189	23,366
Nov	1783	-8	1785	1730	380	9,723
Jan	1768	-13	1798	1730	140	3,036
Mar	1758	-13	1746	1743	30	592
May	1758	-13	–	–	–	30
Total					5,800	49,363

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

Jul	196.50	+0.80	198.00	186.00	3,216	4,926
Sep	181.80	-1.15	182.00	175.00	5,045	9,208
Dec	160.20	-1.30	161.00	156.50	900	4,623
Mar	150.60	+1.00	151.00	144.00	488	2,306
May	146.50	+0.25	143.00	140.50	49	587
Jul	142.50	+0.25	–	145.00	27	153
Total					9,714	21,816

■ COFFEE (ICO) (US cents/pound)

Jun 13		Prev. day
Comp. daily	148.86	153.38
15 day average	179.09	181.81

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

Aug	323.6	-0.7	324.5	323.0	387	14,950
Oct	317.3	-0.2	318.0	316.6	158	8,066
Dec	314.7	-0.3	316.0	314.1	258	3,183
Mar	314.3	-0.6	314.5	314.3	258	2,792
May	313.9	-0.1	–	–	–	892
Aug	312.3	-0.3	312.0	312.0	175	646
Total					978	31,113

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

Jul	11.36	-0.00	11.43	11.35	14,632	82,333
Oct	11.28	-0.04	11.33	11.25	11,715	76,241
Mar	11.16	-0.01	11.18	11.13	2,410	32,013
May	11.00	-0.05	11.09	11.03	136	7,230
Jul	10.97	-0.01	11.02	10.95	99	3,654
Oct	10.87	-0.01	–	10.90	21	1,013
Total					29,028	183,079

■ COTTON NYCE (50,000lbs; cents/lbs)

Jul	72.24	-0.91	73.80	72.15	5,821	22,613
Oct	74.30	-0.98	75.60	74.20	813	8,054
Dec	74.83	-1.09	76.25	74.80	3,817	33,025
Mar	76.17	-0.93	77.20	76.20	127	5,651
May	76.67	-0.78	77.45	76.80	10	1,158
Jul	75.80	-0.80	75.88	76.64	18	585
Total					10,887	73,604

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

Jul	76.85	+0.85	77.80	76.00	2,282	15,892
Sep	79.60	+0.80	80.20	78.60	1,432	10,442
Nov	82.25	+0.75	82.50	81.50	503	4,606
Jan	84.70	+0.70	85.50	84.45	52	1,813
Mar	87.60	+1.10	88.00	87.00	61	1,303
May	90.10	+1.10	–	–	47	314
Total					4,341	34,367

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

Jun 16	Jun 13	month ago	year ago
2002.3	2005.1	2007.6	2045.1

■ CRB Futures (Base: 1967 = 100)

Jun 13	Jun 12	month ago	year ago
244.64	244.53		

■ GSCI Spot (Base: 1970 = 100)

Jun 13	Jun 12	month ago	year ago
185.42	[illegible]	[illegible]	[illegible]

LME WAREHOUSE STOCKS (tonnes)

Aluminium	-3,850	to	703,000
Aluminium alloy	-300	to	60,660
Copper	-1,875	to	123,775
Lead	–	to	116,975
Nickel	-264	to	61,045
Zinc	–	to	[illegible]
Tin	+125	to	11,825

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	65.300	+0.125	65.825	65.200	2,733	7,263
Aug	64.775	+0.5	64.875	64.360	7,360	44,425
Oct	67.425	+0.1	67.825	67.100	2,549	23,208
Dec	70.350	+0.25	70.475	69.925	1,907	12,042
Feb	71.125	+0.175	71.350	70.750	371	6,248
Apr	72.960	+0.25	73.025	72.800	127	2,558
Total					15,881	96,448

■ LEAN HOGS CME (40,000lbs; cents/lbs)

Jul	80.875	+0.85	81.000	79.850	4,791	10,107
Aug	77.990	+0.500	78.200	77.450	3,000	10,982
Oct	70.950	+0.325	71.275	70.400	971	8,574
Dec	67.225	+0.325	67.475	66.700	459	3,734
Feb	65.875	+0.375	66.250	65.800	168	1,989
Apr	62.275	+0.725	62.350	62.350	62	984
Total					10,999	37,883

■ PORK BELLIES CME (40,000lbs; cents/lbs)

Jul	79.200	+2.3	79.750	78.030	3,517	4,003
Aug	79.800	+2.175	80.175	78.125	1,315	2,599
Feb	73.700	+1.25	74.000	71.500	210	486
Mar	72.450	+1.95	72.450	71.900	6	17
Total					5,042	7,089

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME	Jul	Oct	Jul	Oct
1575	18	60	26	47
1600	0	48	48	60
1700	4	36	63	74
■ COPPER (Grade A) LME	Jul	Oct	Jul	Oct
2600	92	66	22	134
2650	60	50	41	167
2700	37	38	67	202
■ COFFEE LIFFE	Jul	Sep	Jul	Sep
n/a				
n/a				
n/a				
■ COCOA LIFFE	Jul	Sep	Jul	Sep
n/a				
n/a				
n/a				
■ BRENT CRUDE IPE	Jul	Aug	Jul	Aug
1750	-	64	-	-
1800	52	84	-	-
1850	34	64	-	-

LONDON SPOT MARKETS

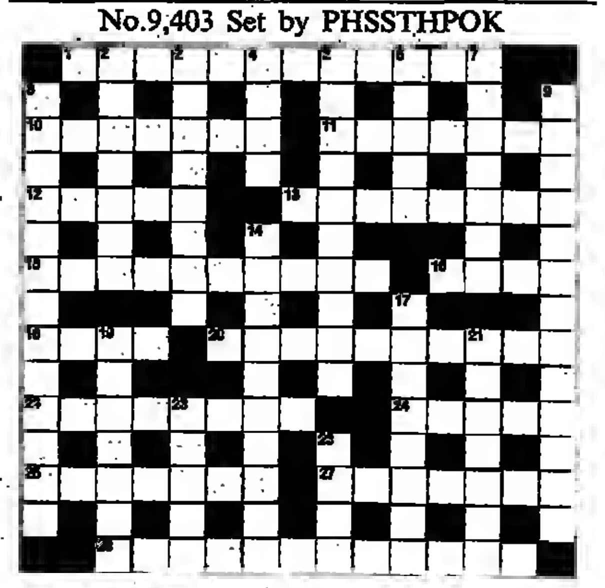
■ CRUDE OIL FOB (per barrel)		+or-
Dubai	$17.03-7.12	-0.125
Brent Blend (dated)	$17.23-7.24	+0.20
Brent Blend (Aug)	$17.88-7.89	+0.10
W.T.I.	$19.23-9.25z	
■ OIL PRODUCTS NWE prompt delivery CIF (tonne)		
Premium Gasoline	$201-203	
Gas Oil	$162-164	-0.50
Heavy Fuel Oil	$81-83	-0.50
Naphtha	$183-185	-0.50
Jet fuel	$178-180	-0.50
Diesel	$167-169	-2.00
■ NATURAL GAS (Pence/therm)		
Bacton (Jul)	9.85-9.85	-0.025
Petroleum Argus, Tel. London (0171) 359 8792		
IPE (Jul)	9.845	-0.050
■ OTHER		
Gold (per troy oz)♣	$341.85	+0.40
Silver (per troy oz)♣	473.00c	+1.00
Platinum (per troy oz.)	$435.00	-2.00
Palladium (per troy oz.)	$203.00	+1.00
Copper	127.0c	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	14.09r	
Tin (New York)	281.5	-2.00
Cattle (live weight)	90.14p	+0.09*
Sheep (live weight)	116.52p	+6.44*
Pigs (live weight)†	97.22p	-0.55*
Lon. day sugar (raw)	$280.50	-0.20
Lon. day sugar (wte)	$329.50	-1.00
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£109.00	
Wheat (US Dark North)	Unq	
Rubber (Jul)♥	72.50p	
Rubber (Aug)♥	72.50p	
Rubber (KL RSS No1)	283.5x	-0.50
Coconut Oil (Phil)§	665.0y	
Palm Oil (Malay)§	512.5w	-22.5
Copra (Phil)§	$418.0y	
Soyabeans (US)	210.0	
Cotton Outlook 'A' index	81.05c	
Wooltops (64s Super)	438p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. [illegible]

JOTTER PAD

CROSSWORD

No.9,403 Set by PHSSTHPOK



ACROSS
1 Weak foreign articles force editor (12)
10 At this time, in this place – not! (7)
11 Hell fire on top of natural disaster (7)
12 Hole location? (5)
13 Conduct season for discount travel (8)
15 Splendid if platonic bewilderment (10)
16 Carve the front off a boat (4)
18 Repetition is recorded without beginning (4)
20 Default cut moved up and down (10)
22 Grips for foot massage? (8)
24 Press officer in prison (5)
26 Firm and moist jelly allows absorption (7)
27 Injury from solar flare? (7)
28 Shaded from the activity of the sacred church host (12)

DOWN
2 Baby can rob – we never held it up (7)
3 Little sister beneath a river encompasses an example of an interpretation (8)
4 Glance both ways (4)
5 Joint care is used to tell the time (10)
6 Search for a weapon (5)
7 Before the third watch, guard is heard to be asleep (7)
8 Entering business (13)
9 Warnings contained in debt are presaging the future (13)
14 Dinosaur went for a swim around the same place (10)
17 Submarine with a boy in charge is too low to be beard (8)
19 The right microphone is hot (7)
21 Rip outer ends of heart and liver, perhaps? (7)
23 Externally the same or better (5)
25 In the end, Australasia is a continent (4)

Solution to Saturday's prize puzzle on Saturday June 28.
Solution to yesterday's prize puzzle on Monday June 30.

FT MANAGED FUNDS SERVICE

Offshore Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

BERMUDA (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

American Phoenix Investment Portfolios (x)

Foreign & Colonial Portfolios Fd Sicav(x)

Frontrunner I (x)

GT Global

Bank Von Ernst & Cie AG

LUXEMBOURG (REGULATED)(**)

OFFSHORE INSURANCES

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

[illegible]

OTHER OFFSHORE FUNDS

[illegible]

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

CHEMICALS - Cont.

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Cont.

ENGINEERING - Cont.

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD PRODUCERS

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Cont.

HOUSEHOLD GOODS

INSURANCE

INSURANCE - Cont.

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INV TRUSTS SPLIT CAPITAL

هکذا من الاصل

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

[illegible]

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FTSE Actuaries Share Indices.

Approved by the Inland Revenue

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

MEDIA - Cont.

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

[illegible]

PHARMACEUTICALS - Cont.

[illegible]

PROPERTY

[illegible]

PROPERTY - Cont.

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

RETAILERS, GENERAL - Cont.

[illegible]

SUPPORT SERVICES

[illegible]

SUPPORT SERVICES - Cont.

[illegible]

TELECOMMUNICATIONS

[illegible]

TEXTILES & APPAREL

[illegible]

TEXTILES & APPAREL - Cont.

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

WATER

[illegible]

AIM

[illegible]

AIM - Cont.

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

[illegible]

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes.
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ф Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- § Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates
e Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
z Dividend yield includes a special payment

F Yield based on prospectus or other official estimates for 1996-97.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1997.
K Yield based on prospectus or other official estimates for 1998
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1997-98.
R Dividend is paid in whole or part as a [illegible]

FID (Foreign Income Dividend)
R Forecast annualised yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
[illegible] ex capital distribution.

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LONDON STOCK EXCHANGE

July budget fears trigger big falls in shares

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

A splendid stock market debut for the newly de-mutualised Norwich Union coincided with a decidedly unhappy day for the rest of the UK equity market.

Instead of basking in the reflected glory of Norwich Union, the market had to come to terms with a report that said the central planks of the July 2 budget would be the abolition of the 20 per cent tax credit on dividends and imposition of the windfall profits tax.

The tax credit abolition, in particular, was viewed with dismay by dealers who said such a move could trigger a market decline of up to 9 per cent if the market responded similarly to the 5 percentage points reduction in the credit made by Mr Norman Lamont in his 1993 budget. That was followed by a 2.8 per cent fall in the FTSE 100 index in the succeeding month.

After a steady opening, helped by the initial burst of enthusiasm surrounding Norwich Union, Footsie gradually gave way, with sentiment eroded by the tax credit story.

There were fears too that the euphoria created by the Alliance & Leicester, Halifax and Norwich flotations might have marked the top of the current rally.

As soon as the Norwich flotation got underway, City Index, the spread betting bookmaker, began grey market trading in Woolwich Building Society shares, scheduled to float on July 7. City Index's first price on Woolwich was 327p-337p.

There was very little help for London from Wall Street where the Dow Jones Industrial Average, after hitting six straight closing records, slid almost 30 points in quick time. The US market soon picked up, however, posting a minor gain an hour after London closed.

Footsie managed to claw its way off the day's low of 4,735.5, down 47.6, reached just before US markets opened, but still closed 38.0 lower at 4,745.1.

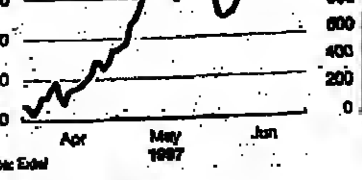
Other FTSE indices were similarly affected by the tax story. The FTSE 250 finished 29.0 lower at 4,557.1, only marginally above the day's low, while the FTSE SmallCap dipped 4.7 to 2,283.8, after surprising with a minor gain at the start of trading.

Turnover was 864m, well up on usual levels for a Monday but that number included the 149m shares traded in Norwich Union, around 17 per cent of the total.

Concerns about the July 2 budget are not the only hurdle the London market has to contend with in the short term. Wednesday brings the expiry of equity stock options, and Friday sees a series of expiries, the so-called triple witching, comprising the simultaneous expiry of the FTSE 100 and 250 futures plus FTSE 100 index options.

The banks provided one of the day's biggest movers in National Westminster, where the profits warning and news of the resignation of Mr Martin Owen, NatWest Markets' chief, caused ripples of unease. Some dealers said they expected National Westminster to move quickly to repair the damage to its image, possibly by a strike at a building society or life assurer.

FTSE All-Share Index



Equity shares traded

Turnover by volume (million). Excluding: Intra-market business and overseas turnover

Indices and ratios

FTSE 100	4745.1	−38.0
FTSE 250	4557.1	−29.0
FTSE 350	2295.1	−17.7
FTSE All-Share	2249.67	−16.44
FTSE All-Share yield	3.46	3.43
FT 30	3054.3	-23.1
FTSE Non-Fins p/e	19.21	19.19
FTSE 100 Fut Jun	4571.0	-50.0
10 yr Gilt yield	7.06	7.10
Long gilt/equity yld ratio	2.05	2.07

Best performing sectors

1 Engineering : Vehicles .... +1.5
2 Oil: Integrated .... +0.8
3 Extractive Inds .... +0.7
4 Mineral Extraction .... +0.7
5 Household Goods .... +0.6

Worst performing sectors

1 Life Assurance .... −2.4
2 Banks: Retail .... −2.0
3 Electronic & Elec .... −1.9
4 Insurance .... −1.7
5 Electricity .... −1.7

NatWest hit by warning

By Peter John, Martin Brice and Joel Kibazo

National Westminster had a stomach-churning ride through the day with an early bout of optimism savagely reversed by a subsequent profits warning.

To begin with, investors responded brightly to newspaper reports that the bank was going to tackle problems at its investment bank.

Reports that it planned to part company with Mr Martin Owen, the division's chief executive, proved to be well founded. But they came with an announcement that the first half profit was not expected to exceed £770m – significantly below last year's £879m for the equivalent period and also under the consensus forecast.

So, an early gain of more than 2.5 per cent turned into a 5 per cent fall, one of the heaviest in the Footsie. The stock ended 41½ off at 755p.

Some analysts believe that the shares may not have come to the end of their volatile ride. There is a feeling that with management credibility at an all-time low, a withdrawal from investment banking and a possible retrenchment from acquisitions, the only feasible option is to appease disgruntled shareholders with a sizeable return of cash. That, say analysts, will only serve to help the battered share price.

Meanwhile, Abbey National, which has been widely tipped to merge with NatWest, slid 27½ to 869p.

Norwich Union continued the trend of strong flotations in financial stocks. The shares benefited on their first day of trading from a generally supportive background but investors' profits were limited by the overall market weakness yesterday.

The stock market gained more than 3 per cent over the week before the flotation, with the result that investment institutions had to fight to maintain weightings in sectors where they are already drastically short of stock.

And some of the biggest investors – the insurers – are already restricted in the amount of their own shares they can admit to their life funds, so they need to over-compensate with a higher than average weighting in sector rivals.

The shares were three times subscribed by members and nine times subscribed by UK and European institutions. They were quoted initially at around 350p, the level indicated by financial bookmakers towards the end of last week and well up on the 290p public offer price.

Then they drifted to the 330p level although that still gave an immediate 25 per cent premium to Norwich Union members who applied to top up their allocations of free shares with discounted stock.

Turnover, as expected, was high at 149m shares and the stock ended at 324½p. Volume represented 17 per cent of the market's total, yet paled in comparison with the Halifax float a fortnight before when 647m shares changed hands on the first day of dealing.

Norwich's entry to the market made it the UK's third largest quoted insurer behind Prudential and Royal & Sun Alliance, with a market capitalisation of £6.4bn by the close.

British Steel started the day badly as investors digested results that came in at the bottom of expectations and were accompanied by gloom on the effect of a strong pound and news of more job cuts. The stock was marked down but later in the day buying interest from the US lifted it off its lows to close down 4⅞ at 158¾p in brisk trade of 20m.

The company said the strength of sterling was a problem for the group: half its sales are exports and its customers who were themselves exporters. However, the company's emphasis on the strong pound prompted US investors to buy the stock. One trader said: "They are taking a punt on the currency."

Mr Paul Compton at Merrill Lynch said: "British Steel is the most-geared play to weak sterling in the Footsie."

Analysts said US investors regarded the price fall as a buying opportunity into the stock because the company had sufficient cash to ensure the dividend was safe, and they believe the shares were unlikely to fall below these levels in the short term.

The vehicle engineering sector was one of the few to make progress. It was partly powered by T&N, which rose 21 to 159p on the back of bid talk sparked by the weekend press.

However, analysts said the bid story seemed unlikely, although a joint deal with two US engineers, Dana Corp and Federal Mogul, had logic.

The bid story seemed not to be embraced by traders, and Mr Robert Speed at Henderson Crosthwaite said: "This share price is saying the market had it too low on fundamentals but it is not pricing in a bid."

He believes the shares have a fundamental value of 210p. Suggestion of a bid could take them nearer 300p, he said.

Henlys continued their rise, up 5⅛ to 486p, as traders positioned themselves ahead of some bullish statements expected from meetings with analysts this week.

Lex Service rose 13¼ to 388¾p, helped by a statement that it had sold 11m shares in Synnex Technology International, the Taiwanese company. The sold shares were said to be worth about £35m.

Rental group Thorn was one of the best performers in the FTSE 250 yesterday, the shares appreciating 8 or 4.6 per cent, to 181½p. It emerged yesterday that US group Capital International had raised its holding in the UK group to over three per cent.

Among the rest of the retailers, MFI Furniture, which reports figures at the begining of next month, was in demand, boosted by a broker's recommendation. The shares put on 3 to 135p.

Psion fell 97½ to 407½p in volume of 1.8m after a profits warning. It said sales of existing products had fallen as customers had waited for its new line, the Series 5, which was not yet established. Analysts were said to be downgrading estimates for this year from between £22m and £24m down to between £16.5m and £18m.

Rolls-Royce dropped 14 to 254½p in volume of 6.8m. A series of new orders had been announced at the Paris air show by the company, but analysts estimated that research and development costs were higher than they had forecast.

Investors hunting for bargains also chanced on Burton Group helping the shares 3 ahead at 131½p.

It was a shortage of stock that was cited for the advance in Anglo-Dutch group Unilever. The shares hardened 22 to £17.32½.

FT 30 INDEX

	Jun 16	Jun 13	Jun 12	Jun 11	Jun 10	Yr ago	*High	*Low
FT 30	3054.3	3077.4	3062.5	3026.6	3039.4	2782.7	3077.4	2868.9
Ord. div. yield	3.60	3.56	3.58	3.63	3.61	4.03	4.22	3.56
P/E ratio net	18.44	18.64	18.54	18.31	18.38	16.98	18.64	15.80
P/E ratio nil	18.25	18.45	18.35	18.12	18.20	16.29	18.45	15.71

FT 30 since compilation: high 3077.4 13/06/97; low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
3073.8	3051.1	3058.4	3056.2	3054.5	3053.5	3048.6	3051.9	3054.9	3073.8	3049.4

	Jun 16	Jun 13	Jun 12	Jun 11	Jun 10	Yr ago
SEAQ bargains	62,314	51,900	46,674	50,300	52,066	30,812
Equity turnover (£m)†	-	NA	NA	NA	NA	1867.8
Equity bargains†	-	NA	NA	NA	NA	35,507
Shares traded (m)†	-	NA	NA	NA	NA	739.4

†Excluding intra-market and overseas turnover but including Crest turnover.

 *For 1997.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	580	Total Highs	134	Total contracts	55,993
Total Falls	987	Total Lows	71	Calls	33,949
Same	1,503			Puts	22,044

Jun 16 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	4794.0	4750.0	-51.0	4794.0	4744.0	23676	54385
Sep	4820.0	4784.0	-50.0	4823.0	4780.0	14149	30484
Dec	4844.0	4838.0	-49.0	4844.0	4840.0	1010	1216

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	4575.0	4572.0	-8.0	4575.0	4575.0	25	4390
Sep	4630.0	4627.0	-7.0	4630.0	4622.0	45	4238

■ FTSE 100 INDEX OPTION (LIFFE) (*4747) £10 per full index point

	4550 C	4550 P	4600 C	4600 P	4650 C	4650 P	4700 C	4700 P	4750 C	4750 P	4800 C	4800 P	4850 C	4850 P	4900 C	4900 P
Jun	202	1	153	2	105½	5	63½	13	30	31½	10½	63½	2½	110	1	160
Jul	247	26½	206	35½	167	47½	129	62	98	83	72½	107½	51	137½	34	173
Aug	264	48	226½	60	189	72½	158	91	127	111	108	136½	78	163½	57½	195½
Sep	294	80	258	72½	220	88	188½	108	157	128	130	153	105½	181	83½	209
Dec†			342	103			276	145½			215½	188			164	241

Calls 11,285 Puts 2,658

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

	4575 C	4575 P	4625 C	4625 P	4675 C	4675 P	4725 C	4725 P	4775 C	4775 P	4825 C	4825 P	4875 C	4875 P	4925 C	4925 P
Jun	176	1½	127½	3	82½	7½	44	19	18½	43½	5½	80½	1½	126	1	175
Jul	221½	30	182	40	145½	53	103½	70½	85	92	61½	116	42	148½	28½	182½
Aug	245	55	207	86½	172½	81½	140½	99	112	120	89½	145½	69½	175½	51½	206
Sep			239	83			174½	116½			121	161			79	217½
Dec†			321	115			258	148½			201½	189½			152	236

Calls 12,945 Puts 7,904 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1997 High	1997 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
§	F.P.	90.4	1200	762½	Aston Villa	790		R8.8	1.8	1.4	43.4
	F.P.	-	102	97	Caradon B	100	+½	-	-	-	-
*	F.P.	2,073	312½	270½	Gallaher	300½	-1	19.25	1.4	8.0	11.4
*	F.P.	18,712	776	714	Halifax	745½	-8½	a14.84	2.1	2.5	22.3
§140	F.P.	11.4	147½	98½	Heart of Midlthn	112½	-1	-	-	-	-
100	F.P.	3.75	125	102½	†Integrated As Mg	125		-	-	-	-
§	F.P.	-	99	99	Intl Biotech C	99		-	-	-	-
§	F.P.	3.69	119½	112½	Longbridge Intl	117½		-	-	-	16.4
290	F.P.	6,253	357½	323	Norwich Union	324½		L10.6	1.8	4.1	16.9
§	F.P.	69.5	227	210½	Royalblue Grp	210½		1.5	2.8	0.9	53.4
§100	F.P.	8.15	120½	112½	†SBS Group	115½	-2	L2.4	2.0	2.8	20.3
§100	F.P.	22.5	112½	107	Toppa Tiles	112½		-	-	-	11.8
§3	F.P.	5.04	4	3½	Versatile Group	3½		-	-	-	-

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1997 High	1997 Low	Stock	Closing price p	+or-
205	Nil	20/6	19pm	16pm	Pillar Props	17pm	
10	Nil	19/6	1½pm	¾pm	Tadpole Tech	¾pm	

pm premium.

FTSE GOLD MINES INDEX

	Jun 13	% chg on day	Jun 12	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (31)	1553.94	-0.3	1558.46	2103.75	2.17	..	2130.03	1466.80
■ Regional indices								
Africa (14)	1673.36	-1.7	1702.29	2813.60	5.28	26.73	2817.88	1673.36
Australasia (6)	1726.23	+0.5	1717.46	2440.08	2.99	19.52	2491.99	1717.46
North America (11)	1508.43	+0.1	1507.17	1855.87	0.96	62.12	1884.08	1335.84

 Figures in brackets show number of companies. Basis US Dollars. Base Value: 1000.00 31/12/92. † Partial. Latest prices were unavailable for this edition.

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Jun 16	Day's chge%	Jun 13	Jun 12	Jun 11	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	4745.1	−0.8	4783.1	4757.4	4724.8	3761.5	3.46	2.03	17.78	90.01	2025.99
FTSE 250	4557.1	−0.6	4586.1	4545.2	4506.9	4462.2	3.58	1.59	21.94	89.04	1904.84
FTSE 250 ex IT	4564.7	−0.6	4593.7	4552.0	4512.0	4506.2	3.73	1.62	20.71	92.04	1913.62
FTSE 350	2295.1	−0.8	2312.8	2298.7	2282.3	1901.1	3.48	1.94	18.45	43.77	2001.66
FTSE 350 ex IT	2294.7	−0.8	2312.4	2298.5	2281.8*	−	3.51	1.95	18.20	11.37	1026.15
FTSE 350 Higher Yield	2220.9	−0.9	2240.5	2231.9	2218.9	1827.4	4.50	1.82	15.28	51.72	1641.46
FTSE 350 Lower Yield	2376.0	−0.7	2391.8	2371.7	2353.7	1982.1	2.46	2.17	23.39	35.16	1695.40
FTSE SmallCap	2283.81	−0.2	2288.51	2283.74	2261.10	2239.75	3.09	1.74	23.33	35.64	1937.84
FTSE SmallCap ex IT	2263.36	−0.2	2267.52	2265.61	2263.02	2240.82	3.33	1.82	20.64	38.17	1936.61
FTSE All-Share	2249.67	−0.7	2265.11	2252.99	2237.85	1887.21	3.46	1.93	18.73	42.34	1991.07
FTSE All-Share ex IT	2248.68	−0.7	2265.46	2252.48	2237.10	−	3.50	1.95	18.33	11.05	1023.56

■ FTSE Actuaries Industry Sectors

	Jun 16	Day's chge%	Jun 13	Jun 12	Jun 11	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(20)	4590.93	+0.7	4561.20	4487.50	4448.16	3488.61	3.33	2.01	16.68	88.75	2056.64
12 Extractive Industries(5)	4608.25	+0.7	4578.96	4534.94	4482.96	4340.37	3.42	2.88	15.96	104.80	1408.90
15 Oil, Integrated(3)	4749.55	+0.8	4710.31	4623.38	4579.46	3510.04	3.51	1.85	18.26	94.47	2187.92
16 Oil Exploration & Prod(12)	3747.19	−0.9	3782.54	3764.53	3768.29	2472.40	1.55	2.21	36.58	37.61	2295.55
20 GEN INDUSTRIALS(287)	1972.17	−0.7	1985.69	1959.46	1928.38	2076.28	4.07	1.86	18.49	37.48	1124.42
21 Building & Construction(35)	1416.46	−0.1	1417.83	1408.29	1385.04	1204.70	3.07	1.90	21.48	25.16	1232.17
22 Building Matls & Merchs(30)	1932.68	−0.9	1950.15	1907.76	1672.08	1915.11	4.16	2.76	10.82	40.70	1020.84
23 Chemicals(26)	2486.82	−1.0	2512.70	2486.28	2443.43	2502.31	4.25	1.48	19.90	62.18	1239.68
24 Diversified Industrials(16)	1300.20	+0.4	1295.55	1287.58	1276.54	1630.52	5.60	2.00	11.16	36.57	770.33
25 Electronic & Elect Equip(38)	2107.81	−1.9	2148.62	2115.83	2075.13	2405.87	3.74	1.54	21.77	15.38	1127.35
26 Engineering(68)	2610.42	−0.9	2633.20	2585.11	2545.92	2478.39	3.26	2.25	17.02	34.44	1636.89
27 Engineering, Vehicles(13)	2954.38	+1.5	2911.62	2884.30	2846.01	3028.11	3.77	‡	‡	54.73	1590.82
28 Paper, Pckg & Printing(27)	2111.00	−1.1	2133.42	2109.86	2082.55	2650.34	4.98	1.84	13.66	54.71	921.21
29 Textiles & Apparel(14)	1067.41	−0.6	1074.32	1055.28	1048.38	1414.21	6.56	1.00	19.15	41.76	702.54
30 CONSUMER GOODS(94)	4591.03	−0.6	4617.45	4607.50	4551.26	3587.85	3.31	1.81	20.80	88.81	1773.37
32 Alcoholic Beverages(7)	3213.69	−0.2	3219.63	3187.86	3161.09	2736.00	4.12	1.88	18.14	76.56	1221.95
33 Food Producers(25)	3012.77	+0.2	3006.94	2972.17	2947.76	2484.24	3.88	1.84	16.41	67.56	1427.40
34 Household Goods(17)	2986.03	+0.6	2967.00	2931.30	2924.02	2663.82	3.48	2.32	15.53	59.44	1230.01
36 Health Care(15)	2273.32	+0.4	2263.43	2253.73	2229.16	2124.36	2.89	1.67	27.75	39.82	1430.09
37 Pharmaceuticals(16)	7373.67	−1.0	7445.19	7459.63	7396.81	5221.24	2.50	1.71	29.13	104.77	2588.52
38 Tobacco(2)	4831.37	−1.2	4889.63	4907.64	4738.41	4366.74	5.60	1.87	11.91	158.73	1289.29
40 SERVICES(271)	2708.84	−0.5	2722.16	2707.39	2688.57	2574.31	2.94	1.98	21.51	47.06	1482.17
41 Distributors(30)	2744.07	−0.2	2750.18	2726.68	2703.43	2961.34	3.39	1.94	16.96	52.52	1051.92
42 Leisure & Hotels(31)	3397.78	−0.6	3419.94	3472.38	3450.55	3253.94	2.72	1.83	25.10	61.83	1681.98
43 Media(44)	4353.73	−0.4	4373.33	4379.05	4332.37	4235.81	2.28	1.91	28.63	59.26	1616.93
44 Retailers, Food(15)	2161.34	−0.2	2165.10	2150.82	2150.57	2062.73	3.78	2.26	14.67	51.26	1442.61
45 Retailers, General(53)	2143.05	−0.6	2155.57	2104.89	2090.57	2148.61	3.27	2.06	18.50	45.62	1279.67
47 Breweries, Pubs & Rest.(22)	3206.03	−0.2	3213.01	3190.32	3177.46	3263.89	3.49	2.19	16.37	52.32	1598.56
48 Support Services(54)	3072.05	−0.5	3086.06	3107.38	3091.11	2469.67	1.88	2.72	27.42	22.18	1998.39
49 Transport(22)	2901.52	−0.9	2926.90	2905.45	2878.63	2385.65	3.46	1.30	27.87	56.35	1265.33
60 UTILITIES(31)	2915.67	−0.6	2932.92	2925.71	2923.96	2367.15	4.82	1.50	17.31	54.01	1348.07
62 Electricity(9)	3140.81	−1.7	3194.37	3167.40	3133.11	2550.51	5.66	2.00	11.05	104.25	1781.23
64 Gas Distribution(2)	1929.53	+0.4	1921.12	1946.35	1937.84	1262.50	6.32	‡	‡	68.13	1102.09
66 Telecommunications(8)	2416.74	−0.2	2421.54	2418.39	2430.54	2035.01	3.66	1.69	20.19	13.53	1147.62
68 Water(12)	2536.52	−0.8	2558.21	2536.65	2539.35	2154.07	6.32	2.30	8.68	65.16	1604.56
69 NON-FINANCIALS(673)	2279.50	−0.4	2288.79	2272.43	2251.45	2015.00	3.55	1.83	19.21	42.27	1811.59
70 FINANCIALS(106)	4326.06	−1.9	4408.64	4405.24	4412.02	2870.66	3.33	2.38	15.76	90.65	1953.78
71 Banks, Retail(8)	6564.90	−2.0	6721.64	6704.65	6715.10	3932.04	3.05	2.65	15.46	129.00	2253.86
73 Insurance(18)	1759.11	−1.7	1790.29	1791.14	1791.51	1476.36	4.92	2.53	10.05	54.89	1406.24
74 Life Assurance(7)	4856.40	−2.4	4974.36	5016.76	5053.94	3387.46	3.63	1.96	17.58	121.00	2121.28
77 Other Financial(29)	3211.46	−0.5	3228.28	3218.12	3212.47	2667.71	3.28	1.83	18.67	58.61	1912.15
79 Property(44)	1997.82	−1.5	2027.43	2031.40	2026.74	1532.54	3.23	1.31	29.52	33.25	1284.30
80 INVESTMENT TRUSTS(127)	3469.04	−0.5	3487.87	3461.60	3448.90	3182.00	2.17	1.13	51.05	40.68	1243.86
89 FTSE All-Share(906)	2249.67	−0.7	2266.11	2252.99	2237.85	1887.21	3.46	1.93	18.73	42.34	1991.07
105 FTSE All-Share ex IT(779)	2248.68	−0.7	2265.46	2252.48	2237.10	−	3.50	1.95	18.33	11.05	1023.56
FTSE Fledgling	1288.46	−0.1	1290.22	1285.68	1283.87	1276.10	3.06	0.81	50.57	20.43	1392.54
FTSE Fledgling ex IT	1296.16	−0.1	1297.76	1294.37	1292.39	1292.42	3.40	0.78	46.90	20.02	1402.32
FTSE AIM	1070.0	+0.2	1068.0	1066.7	1067.3	−	1.03	1.05	80.00†	2.43	979.49

■ Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	4777.2	4742.6	4754.3	4745.8	4744.9	4740.5	4735.8	4736.3	4747.3	4777.2	4735.5
FTSE 250	4591.8	4575.9	4572.8	4568.2	4565.9	4562.7	4560.8	4559.7	4557.1	4593.6	4558.9
FTSE 350	2310.0	2296.0	2300.2	2296.5	2295.9	2293.8	2291.8	2291.9	2296.0	2310.1	2291.7
FTSE SmallCap	2286.87	2288.10	2286.64	2286.30	2285.49	2285.08	2284.65	2283.93	2284.06	2289.12	2283.70
FTSE All-Share	2263.93	2250.78	2254.54	2251.08	2250.48	2248.61	2246.78	2246.79	2250.47	2263.68	2246.65

Time of FTSE 100 Day's high: 8:30 AM Day's low: 2:02 PM. FTSE 100 1997 High: 4745.1 (16/06/97) Low: 4056.6 (10/01/97)
Time of FTSE All-Share Day's high: 8:30 AM Day's low: 2:03 PM. FTSE All-Share 1997 High: 2249.70 (16/06/97) Low: 1969.78 (02/01/97)

Further information is available on http://www.ftse.com

† Sector P/E ratios greater than 60 and net covers greater than 30 are not shown. ‡ Values are negative. Name Change: Aspen Communications now Aspen (FTSE Fledgling)

FTSE INTERNATIONAL

TRADING VOLUME

■ Major Stocks Yesterday

	Vol. 000s	Closing price	Day's change

Based on trading volume for a selection of major securities dealt through the SEAQ system yesterday until 4.30pm. † Indicates an FTSE 100 index constituent. All trades are rounded down. Source: Ibbal, part of FT Information.

هكذا من الاصل

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Jun 16 / Sch)

[illegible]

BELGIUM/LUXEMBOURG (Jun 16 / Frs.)

[illegible]

CZECH REP (Jun 16 / Koruna)

[illegible]

DENMARK (Jun 16 / Kr)

[illegible]

FINLAND (Jun 16 / Mkk)

[illegible]

FRANCE (Jun 16 / Frs.)

[illegible]

GERMANY (Jun 16 / Dm.)

[illegible]

GREECE (Jun 13 / Drachma)

[illegible]

ITALY (Jun 16 / Lire)

[illegible]

NETHERLANDS (Jun 13 / Fls.)

[illegible]

NORWAY (Jun 16 / Kroner)

[illegible]

POLAND (Jun 16 / Zloty)

[illegible]

PORTUGAL (Jun 16 / Escudo)

[illegible]

SPAIN (Jun 16 / Pta.)

[illegible]

SWEDEN (Jun 16 / Kronor)

[illegible]

SWITZERLAND (Jun 16 / Frs.)

[illegible]

TURKEY (Jun 16 / TL Um)

[illegible]

PACIFIC

JAPAN (Jun 16 / Yen)

[illegible]

AUSTRALIA (Jun 16 / Aust$)

[illegible]

HONG KONG (Jun 16 / H.K.$)

[illegible]

INDONESIA (Jun 16 / Rupiah)

[illegible]

MALAYSIA (Jun 16 / MYR)

[illegible]

NEW ZEALAND (Jun 16 / NZ $)

[illegible]

SINGAPORE (Jun 16 / S$)

[illegible]

SOUTH KOREA (Jun 16 / Won)

[illegible]

TAIWAN (Jun 16 / TW $)

[illegible]

THAILAND (Jun 16 / Baht)

[illegible]

AFRICA

SOUTH AFRICA (Jun 13 / Rand)

[illegible]

NORTH AMERICA

CANADA

TORONTO (Jun 16 / Can $)
4 pm close

[illegible]

MONTREAL (Jun 16 / Can $)
4 pm close

[illegible]

INDICES

	Jun 16	Jun 13	Jun 12	1997 High	1997 Low
Argentina					
General(29/12/77)	(c)	23047.4	23092.8	23092.80 12/6	18237.37 2/1
Australia					
All Ordinaries(1/1/80)	2689.3	2655.3	2636.1	2689.30 16/6	2352.20 1/4
All Mining(1/1/80)	940.7	943.1	937.6	987.18 24/2	878.40 16/4
Austria					
Credit Aktien(30/12/84)	410.06	420.41	418.78	431.87 5/6	374.40 9/1
Traded Index(2/1/91)	1307.97	1302.29	1298.08	1310.70 27/5	1139.22 9/1
Belgium					
BEL20(1/1/91)	2387.40	2400.36	2391.23	2400.36 13/6	1871.85 2/1
Brazil					
Bovespa(29/12/83)	(u)	11828.0	11852.0	11852.00 12/6	6955.50 2/1
Canada					
Metals Minls(1975)	(u)	5585.07	5582.10	5894.75 10/3	4945.86 11/4
Composite(1975)	(u)	6550.60	6515.60	6550.60 13/6	5670.30 14/4
Portfolio(4/1/83)	(u)	3339.96	3328.36	3339.96 13/6	2848.92 11/4
Chile					
IGPA Gen(31/12/80)	(u)	5843.79	5842.30	5843.79 13/6	4912.42 2/1
Denmark					
Copenhagen SE(3/1/83)	589.39	589.28	587.71	589.39 16/6	470.14 2/1
Finland					
HEX General(28/12/90)	3137.48	3143.51	3138.83	3143.51 13/6	2460.26 2/1
France					
SBF 250(31/12/90)	1829.72	1835.23	1811.67	1838.29 16/5	1533.19 2/1
CAC 40(31/12/87)	2795.87	2808.52	2780.27	2808.52 13/6	2256.97 2/1
Germany					
FAZ Aktien(31/12/58)	1284.03	1275.15	1257.13	1284.03 16/6	986.21 2/1
Commerzbank(1/12/53)	3773.90	3748.30	3725.20	3773.90 16/6	2876.90 2/1
DAX(30/12/87)	3765.11	3744.44	3707.98	3765.11 16/6	2848.77 2/1
Greece					
Athens SE(31/12/80)	(c)	1625.73	1631.90	1727.70 23/5	854.54 2/1
Hong Kong					
Hang Seng(31/7/64)	14304.60	14112.55	13924.34	14686.90 2/6	12055.17 3/4
India					
BSE Sens.(1979)	4025.41	4029.99	3982.85	4029.99 13/6	3228.24 2/1
Indonesia					
Jakarta Comp.(10/8/82)	705.26	698.62	695.22	712.60 26/2	631.27 15/4
Ireland					
ISEQ Overall(4/1/88)	3357.27	3359.48	3350.65	3359.48 13/6	2725.07 3/1
Italy					
Banca Comm Ital(1972)	800.86	793.78	771.68	800.86 16/6	642.55 2/1
MIB General(2/1/97)	1205.0	1194.0	1161.0	1205.00 16/6	991.00 2/1
Japan					
Nikkei 225(16/5/49)	20691.97	20526.35	20554.46	20681.07 16/5	17303.65 10/1
Nikkei 300(1/10/82)	298.50	295.62	294.63	298.50 16/6	251.04 27/1
Topix(4/1/68)	1542.19	1530.25	1526.45	1542.19 16/6	1320.82 10/4
2nd Section(4/1/68)	1826.22	1818.46	1815.83	1826.21 6/1	1318.89 16/4
Malaysia					
KLSE Comp.(4/4/86)	1077.40	1078.38	1100.41	1271.57 25/2	1041.27 15/5
Mexico					
IPC(Nov 1978)	(u)	4244.63	4240.02	4244.63 13/6	3358.46 2/1
Netherland					
CBS TRtnGen(End 83)	1003.0	996.2	994.9	1003.00 16/6	736.80 2/1
CBS All Shr(End 83)	578.5	575.6	569.1	579.50 16/6	429.00 2/1
New Zealand					
Cap. 40(1/7/86)	2370.82	2366.29	2361.08	2448.21 20/1	2287.46 1/4
Norway					
Oslo SE(Ind)(2/1/83)	1973.15	1966.94	1971.04	1998.88 9/6	1538.03 2/1
Philippines					
Manila Comp(2/1/85)	2790.88	2801.61	(c)	3447.60 3/2	2468.39 20/5
Portugal					
BVL 30(4/1/93)	3170.84	(c)	3068.09	3170.84 15/6	2185.87 2/1
Singapore					
SES All-S'pore(2/4/75)	489.85	480.80	481.11	573.03 17/2	475.94 29/4
South Africa					
JSE Gold(28/9/78)	(c)	1129.0	1147.1	1588.10 27/2	1129.00 13/6
JSE Ind.(28/9/78)	(c)	8482.4	8502.1	8656.70 6/5	7869.50 2/1
South Korea					
KoreaCompEx**(4/1/80)	785.05	789.15	774.55	789.15 13/6	811.85 7/1
Spain					
Madrid SE(30/12/85)	578.36	582.29	580.87	582.29 13/6	434.64 2/1
Sweden					
AffarsvaldsGen(1/2/37)	2954.0	2953.7	2933.7	2954.00 16/6	2378.50 2/1
Switzerland					
SMI Index(1/7/88)	5382.0	5384.6	5364.2	5384.60 13/6	3822.80 7/1
SPI General(1/6/87)	3406.8	3420.58	3406.00	3420.58 13/6	2580.22 8/1
Taiwan					
Weighted Pr.**(30/6/66)	8540.45	8315.82	8259.28	8661.72 29/4	6844.75 6/1
Thailand					
Bangkok SET(30/4/75)	911.55	515.80	519.75	868.97 22/1	511.55 15/6
Turkey					
IMKB Nat 100(1986)	1582.00	1583.00	1527.00	1675.80 5/6	888.00 2/1
WORLD					
MS Capital Intl(1/1/70)	940.7*	937.2	931.3	948.70 16/6	794.80 14/4
CROSS-BORDER					
Eurotrack 100(28/10/90)	2451.86	2441.69	2406.55	2451.86 16/6	1989.80 2/1
FTSE E 100(26/6/90)	2085.08	2082.86	2068.58	2082.86 13/6	1582.98 2/1
HSBC JC Drgs(31/12/88)	(u)	405.06	403.31	429.46 20/1	381.54 29/4
ING Barge Emrg(7/1/92)	(u)	184.75	183.61	184.76 13/6	159.74 3/1

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
CAC-40 (200 x Index)							
Jun	2816.0	2785.0	-8.0	2816.0	2779.0	12,831	35,593
Jul	2813.0	2783.0	-8.0	2813.0	2781.5	1,031	6,955
DAX							
Jun	3760.0	3748.0	-1.0	3777.0	3742.5	19,347	140,851
Sep	3783.0	3775.6	+1.5	3805.0	3770.0	6,248	26,932
OMX							
Jun	2330.00	2344.00	+20.00	2349.00	2329.00	4,196	24,892
Jul	2346.00	2351.00	+10.50	2354.50	2336.50	2,130	4,605
SOFFEX							
Jun	5408.0	5367.0	-25.0	5408.0	5331.0	4,398	21,950
Jul	5383.0	5358.0	-40.0	5388.0	5328.0	1,251	6,696

** Sat June 14: Taiwan Weighted Price 8502.18; Korea Comp Ex 791.97. Base values of all indices are 100 except Australia All Ord and Mining – 500; Austria Traded, BEL20, HEX Gen., MIB Gen., BVL30, SBF250, CAC40, SPI, Euro Top-100, ISEQ Overall, Toronto Comp./Met & Mins, DAX – all 1,000; SMI - 1500; JSE Gold – 255.7; JSE 20 Ind – 264.3; IMKB Nat 100 - 1; NYSE All Common – 50; Stand & Poor's - 10 and Amex Comp - 550. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours Index: Jun 16 - 3750.02 -2.36
† Correction. * Calculated at 15.00 GMT. ⊕ Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Ind. Index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

US INDICES

Dow Jones	Jun 13	Jun 12	Jun 11	1997 High	1997 Low	Since compilation High	Since compilation Low
Industrials	7782.04	7711.47	7575.83	7782.04 (13/6)	6391.69 (11/4)	7782.04 (13/6/97)	41.22 (8/7/32)
Home Bonds	102.84	102.85	102.80	103.83 (10/2)	101.09 (14/4)	109.77 (18/10/93)	54.99 (1/10/81)
Transport	2741.87	2690.94	2676.49	2741.87 (13/6)	2222.07 (2/1)	2741.87 (13/6/97)	13.23 (8/7/32)
Utilities	224.60	223.38	220.98	240.85 (22/1)	209.47 (25/4)	266.48 (31/8/93)	15.53 (8/7/32)

DJ Ind. Day's high 7828.08 (7741.42) Low 7688.42 (7589.86) (Theoretical♦)
Day's high 7799.66 (7712.35) Low 7712.37 (7673.96) (Actual♦)

Standard and Poors	Jun 13	Jun 12	Jun 11	1997 High	1997 Low	Since compilation High	Since compilation Low
Composite‡	893.27	883.48†	869.57	893.27 (13/6)	737.01 (2/1)	893.27 (13/6/97)	4.40 (1/6/32)
Industrials♥	1050.54	1036.79	1022.51	1050.54 (13/6)	865.42 (11/4)	1050.54 (13/6/97)	3.62 (30/6/32)
Financial	102.48	101.44	99.68	102.48 (13/6)	80.75 (2/1)	102.48 (13/6/97)	7.13 (4/5/74)
NYSE Comp.	465.17	460.84	453.50	465.17 (13/6)	389.47 (11/4)	465.37 (13/6/97)	4.64 (25/4/42)
Amex Comp.	630.10	626.12	622.87	630.10 (13/6)	541.20 (25/4)	630.16 (13/6/97)	524.20 (15/7/96)
NASDAQ Comp	1423.03	1411.32	1407.85	1423.03 (13/6)	1201.00 (2/4)	1423.03 (13/6/97)	54.87 (8/10/74)

■ RATIOS

	Jun 13	Jun 6	May 30	Year ago
Dow Jones Ind. Div. Yield	1.64	1.70	1.73	2.19
	Jun 11	Jun 4	May 28	Year ago
S & P Ind. Div. yield	1.62	1.69	1.67	1.87
S & P Ind. P/E ratio	24.13	23.32	23.66	22.50

■ NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
Ph Morris	12,919,300	46¼	+1⅛
Du Pont	7,677,200	58⅞	+1
AT &T	8,741,200	37⅞	+⅛
Vodafone	6,461,000	45⅛	+⅛
Pepsico	5,672,900	39	+⅜
BEC	5,322,300	66⅛	+1
Monsanto	5,083,100	42⅞	-3⅛
Am Express	4,806,400	76⅝	+3¼
CUC	4,783,100	26⅛	+⅛
Motorola	4,675,600	70	+⅞

■ TRADING ACTIVITY

● Volume (million)

	Jun 13	Jun 12	Jun 11
New York SE	572.698	587.553	517.241
Amex	22.325	21.450	20.087
NASDAQ	803.196	639.965	631.851
NYSE			
Issues Traded	3,383	3,383	3,372
Rises	1,736	1,872	1,515
Falls	812	734	1,030
Unchanged	835	777	827
New Highs	473	450	293
New Lows	7	16	15

■ S&P 500	Open	Latest	Change	High	Low	Est. vol.	Open int.
Jun	–	892.70	+6.60	–	–	40,655	89,513
Sep	903.35	902.20	+7.10	905.25	903.05	94,400	116,486

■ Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	20750.0	20920.0	+230.0	20930.0	20620.0	14,754	153,740

Open Interest figures for previous day.

■ TOKYO - MOST ACTIVE STOCKS: Monday, June 16, 1997

	Stocks Traded	Closing Prices	Change on day
Hitachi	8.2m	1300	+40
Toshiba Corp	7.7m	770	+16
Nippon Steel Cp	7.1m	355	+10
Fujitsu	5.7m	1500	+20
NKK Corp	4.5m	238	+1
Sakura Bank	4.3m	835	+15
Sumitomo Mtl Ind	3.7m	316	+14
Nomura Secs	3.4m	1480	+30
Sumitomo Bank	3.1m	1850	+20
Mitsui Min & Sml	2.8m	530	+10

Prices supplied by Telekurs, part of FT Information.

NOTES – Prices on this page are as quoted on the individual exchanges and are usually last traded prices. * Calendar year high and low. ‡ Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $.

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NEW YORK STOCK EXCHANGE PRICES

4 pm close June 16

- A -

1997 High	1997 Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
33¾	24¾	AAR	0.48	1.5	24	158	32¼	32	32	-⅛
43	33⅛	AMP	1.04	2.4	34	6359	u43⅛	42	42½	+⅞
103¼	78¼	AMR			7	3489	96⅜	94¼	95⅝	-⅜
37⅝	31½	ASA	1.20	3.7	21	157	32¾	32½	32½	-¼
67⅛	49¾	AbbtL	1.08	1.6	62	7068	66¾	65¾	66	-⅝
18⅝	17⅜	Abitibi Pr	0.48	2.3	9	z0	17⅛	17⅜	17¼	
20	17⅜	ABM Ind	0.40	2.1	17	117	19¾	19⅜	19½	-¼
23	17⅛	Acppincin			11	68	22¾	22⅛	22⅜	-⅞
69½	56⅛	ACE Ltd	0.86	1.3	11	947	u70⅜	69⅛	69¾	+¼
10¾	10	ACM Gvt In x	0.80	5.8	11	280	10½	10¼	10¼	-⅛
7⅝	7	ACM GrOpp x	0.63	8.4		670	u7⅝	7½	7½	
9⅞	9¼	ACM Mgn x	0.96	9.1		442	u9⅞	9¼	9⅞	
10⅜	6¼	Acme Elect				19	7	6⅞	6⅞	-⅛
20	13	Acme Mills				43	17¼	16⅞	17	-⅜
19	14	ACNielsen			33	465	16¾	16¾	16⅛	-¼
40	27¼	Acordia	0.60	2.0	19	133	30⅞	29¾	30¾	-¼
29¾	21⅛	Acuson				665	22½	22⅛	22⅜	
22⅞	19⅛	Adams Expr	0.55	2.4	1	624	u22⅞	22¾	22¾	
40½	24⅞	AdvMic				14261	38½	27¾	38⅛	+1¼
34½	10⅜	Advant Grp	0.03	0.1	16	5042	u27½	24⅝	26	+2¾
16¾	11⅜	Advo Inc			10	180	u16⅛	15⅞	15⅞	-⅛
76⅝	61⅜	Aegon§	1.31	1.8	20	5013	72⅝	71½	71¾	-¾
5⅛	3⅛	Aerflx				53	3⅞	3⅛	3⅞	
48⅞	33	Aero-V x	0.80	1.7	14	979	48½	47⅜	47½	-⅞
74¾	48	AES Corp				z0	77¾	72¾	72¾	-¾

Continued on next page

4 pm close June 16

NYSE PRICES

1997 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
Continued from previous page										
16	$12\frac{7}{8}$	SantaFeERs				1738	$15\frac{1}{8}$	$14\frac{7}{8}$	15	
$39\frac{1}{4}$	$34\frac{1}{8}$	SFePPipe	3.00	7.9	16	89	$38\frac{1}{4}$	$37\frac{3}{4}$	$38\frac{1}{8}$	$+\frac{3}{8}$
$43\frac{3}{8}$	$36\frac{5}{8}$	SaraLee x	0.84	2.0	21	6128	$42\frac{3}{4}$	$42\frac{1}{4}$	$42\frac{1}{8}$	$-\frac{1}{8}$
$60\frac{3}{4}$	$49\frac{3}{8}$	SBC Cm	1.79	2.9	17	11036	u$60\frac{3}{4}$	$60\frac{1}{8}$	$60\frac{3}{4}$	
$26\frac{3}{8}$	$23\frac{3}{8}$	Scana Corp x	1.51	6.0	12	778	$25\frac{1}{8}$	$24\frac{3}{4}$	25	$-\frac{1}{8}$
$9\frac{1}{8}$	$7\frac{5}{8}$	SchawkA x	0.26	2.9	34	10	9	$8\frac{7}{8}$	[illegible]	
62	$44\frac{1}{2}$	SchergP			23	349	$54\frac{7}{8}$	$54\frac{1}{8}$	$54\frac{1}{2}$	$+\frac{1}{8}$
$48\frac{1}{2}$	$31\frac{1}{4}$	SchrPl	0.76	1.6	28	6162	u$48\frac{3}{4}$	$47\frac{1}{2}$	$48\frac{1}{2}$	$+\frac{1}{2}$
$128\frac{1}{4}$	88	Schlmb x	1.50	1.2	33	10548	$122\frac{7}{8}$	119	122	+3
$42\frac{5}{8}$	$30\frac{7}{8}$	Schwab(C)	0.28	0.5	29	1406	$42\frac{1}{2}$	$42\frac{1}{8}$	$42\frac{1}{4}$	$-\frac{1}{8}$
$39\frac{1}{2}$	$29\frac{7}{8}$	SchwMaud	0.60	1.5	15	282	$39\frac{3}{8}$	39	39	$-\frac{1}{8}$
$21\frac{5}{8}$	$14\frac{1}{4}$	SciAtl x	0.06	0.3	86	10765	u22	$20\frac{7}{8}$	22	$+\frac{1}{4}$
$29\frac{1}{8}$	23	Scotsmn	0.10	0.4	14	45	$27\frac{1}{2}$	$27\frac{3}{8}$	$27\frac{1}{2}$	
$14\frac{1}{4}$	$12\frac{3}{8}$	ScuddrNAsF	0.03	0.2		83	u$14\frac{1}{4}$	$14\frac{1}{8}$	$14\frac{1}{8}$	
$16\frac{1}{2}$	$13\frac{5}{8}$	ScuddrNEuF	0.06	0.4		392	$16\frac{3}{8}$	$16\frac{1}{4}$	$16\frac{1}{4}$	$-\frac{1}{8}$
$22\frac{1}{2}$	$15\frac{1}{8}$	SeaCntA	0.77	3.5	15	280	22	$21\frac{5}{8}$	22	$+\frac{1}{8}$
$16\frac{3}{4}$	$15\frac{1}{8}$	SeaC1.4625 x	1.46	8.8		15	$16\frac{5}{8}$	$16\frac{1}{4}$	$16\frac{5}{8}$	$+\frac{3}{8}$
$56\frac{1}{4}$	$37\frac{3}{8}$	S'gate			13	15806	$40\frac{7}{8}$	$39\frac{3}{8}$	$40\frac{3}{4}$	$+\frac{3}{4}$
$42\frac{3}{4}$	$35\frac{3}{4}$	Seagrm x	0.66	1.6		3195	$41\frac{3}{4}$	41	$41\frac{5}{8}$	$-\frac{5}{8}$
$24\frac{1}{8}$	$15\frac{3}{4}$	Seagull En			32	903	$18\frac{1}{2}$	$18\frac{1}{8}$	$18\frac{1}{4}$	
$49\frac{5}{8}$	$38\frac{3}{4}$	Sealed Air			28	316	$48\frac{7}{8}$	$48\frac{1}{4}$	$48\frac{5}{8}$	$-\frac{5}{8}$
$58\frac{3}{4}$	$44\frac{7}{8}$	SearsR x	0.92	1.7	16	6347	$54\frac{3}{4}$	$53\frac{5}{8}$	$54\frac{1}{8}$	$-\frac{1}{8}$
25	21	ScCoSBUS	1.30	5.8	12	816	$22\frac{3}{8}$	$22\frac{1}{4}$	$22\frac{1}{4}$	
$12\frac{7}{8}$	$12\frac{1}{4}$	Seligm Sel x	0.84	0.5		43	u$12\frac{7}{8}$	$12\frac{5}{8}$	$12\frac{7}{8}$	$+\frac{1}{8}$
18	$14\frac{1}{2}$	Sensormat	0.22	1.4	17	807	$15\frac{1}{2}$	$15\frac{1}{4}$	$15\frac{1}{2}$	$-\frac{1}{8}$
$51\frac{3}{4}$	$36\frac{3}{4}$	SequaA	0.80	1.2	54	154	u$52\frac{1}{8}$	$51\frac{1}{4}$	52	$+\frac{1}{4}$
57	$47\frac{1}{2}$	SequaB	0.50	0.9	58	10	58	$55\frac{5}{8}$	56	$+\frac{3}{4}$
[illegible]										

1997 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
$23\frac{7}{8}$	$30\frac{3}{4}$	Yankee Egy x	1.30	5.4	15	201	u$24\frac{1}{4}$	$23\frac{7}{8}$	$24\frac{1}{8}$	$+\frac{1}{2}$
58	$37\frac{7}{8}$	York Int	0.40	1.0	15	1199	$50\frac{5}{8}$	$49\frac{3}{4}$	$50\frac{1}{2}$	$-\frac{1}{8}$
5	4	Zapata				1142	$4\frac{7}{8}$	$4\frac{3}{4}$	$4\frac{7}{8}$	$+\frac{1}{8}$
$19\frac{1}{8}$	$9\frac{1}{8}$	ZnithEl				810	$12\frac{1}{4}$	$11\frac{3}{4}$	$12\frac{3}{8}$	
$27\frac{7}{8}$	$24\frac{5}{8}$	Zenith Nat	1.00	3.9	14	38	$25\frac{3}{4}$	$25\frac{3}{8}$	$25\frac{5}{8}$	$+\frac{1}{8}$
$7\frac{5}{8}$	$7\frac{1}{8}$	Zenix Inc	0.73	9.8		55	u$7\frac{5}{8}$	$7\frac{1}{2}$	$7\frac{1}{2}$	
$23\frac{3}{4}$	$17\frac{1}{4}$	Zero	0.12	0.5	18	47	$23\frac{3}{8}$	$23\frac{1}{4}$	$23\frac{1}{4}$	$-\frac{1}{4}$
12	$10\frac{3}{8}$	ZweigFd	1.16	9.7		675	u12	$11\frac{7}{8}$	12	$+\frac{1}{8}$
$8\frac{7}{8}$	9	Zweig Tot x	0.84	9.6		1318	u$8\frac{7}{8}$	$8\frac{5}{8}$	$8\frac{3}{4}$	

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1997. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

p-new yearly low. P/E price-earnings ratio. sls-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
X Dealings suspended.

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AMEX PRICES

4 pm close June 16

NASDAQ NATIONAL MARKET

4 pm close June 16

- K -

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
K Swiss	0.08	3	43 94	u$14\frac{1}{8}$	$13\frac{3}{4}$	$13\frac{3}{4}$	$+\frac{1}{8}$
Kaman Cp	0.44	23	235	$14\frac{1}{8}$	$13\frac{7}{8}$	$14\frac{1}{16}$	$-\frac{1}{16}$
Kelly Sv x	0.84	14	918	$28\frac{3}{8}$	$28\frac{1}{2}$	$28\frac{3}{4}$	$-\frac{1}{4}$
Kimball	1.16	14	279	$41\frac{1}{4}$	$40\frac{1}{4}$	$41\frac{1}{16}$	$-\frac{3}{16}$
KLA-Tn		24	18532	$47\frac{5}{8}$	$45\frac{3}{8}$	$46\frac{3}{4}$	$+\frac{1}{2}$
Koll A			540	$\frac{1}{2}$	$\frac{15}{32}$	$\frac{1}{2}$	
Komag		18	9327	$26\frac{3}{8}$	$25\frac{1}{2}$	$25\frac{15}{16}$	$+\frac{5}{16}$
Kulicke S			7800	$27\frac{1}{8}$	$25\frac{5}{8}$	26	$-\frac{3}{4}$

- X - Y - Z -

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
Xilinx		34	22708	$49\frac{3}{4}$	$46\frac{5}{8}$	$49\frac{1}{8}$	$+2\frac{1}{8}$
Xircom		18	8827	$12\frac{1}{2}$	11	$12\frac{7}{16}$	$+1\frac{7}{16}$
Xpesa Corp			2557	$5\frac{3}{16}$	$4\frac{15}{16}$	$5\frac{1}{8}$	$+\frac{1}{8}$
Yellow			1206	$22\frac{3}{16}$	$21\frac{7}{8}$	$21\frac{7}{8}$	$-\frac{11}{16}$
York Rsch		15	251	$7\frac{1}{2}$	$7\frac{1}{4}$	$7\frac{5}{8}$	$-\frac{1}{16}$
ZionsUtah	0.44	18	883	$33\frac{1}{2}$	$32\frac{5}{8}$	$33\frac{3}{8}$	$+\frac{1}{8}$

EASDAQ

EASDAQ is a fully regulated independent pan European Stock Market focused on high growth companies with international aspirations. The shares of companies on the EASDAQ Stock Market can be bought and sold through EASDAQ Members. EASDAQ Members are made up of Brokers and Banks from across Europe.

Company	Mid price	Change on day	Volume	High	Low	Company	Mid price	Change on day	Volume	High	Low
ActivCard	US$4.875	-0.125	2500	8.25	4.375	Esprit Telecom ADS	US$8	-0.625	0	12.25	5.375
Artwork Systems	US$10.375	-0.125	18695	11.125	0.5	Innogenetics	US$11.75		17920	12.75	10.375
Chemunex	FFr16.5		88000	18	14	Mercer Internatl	US$10		8	11.75	0.125
Dr Solomon's ADS	US$24		8	26.5	16.875	PixTech	US$4.125		0	8.125	3.875

Prices for 16/6/97. Please note that mid prices are now used to calculate highs and lows.

Information about EASDAQ can be found on the Web site at HTTP://WWW.EASDAQ.be
EASDAQ offices are located in Brussels (Tel. 32-2 / 227 65 20) and in London (Tel. 44-171 / 489 9890).

US shares mark time at midsession

AMERICAS

Wall Street had a quiet morning as the main indices marked time after last week's impressive gains, *writes John Labate in New York.*

The Dow Jones Industrial Average gained a mere 4.52 by midsession at 7,784.75, while the broader Standard & Poor's 500 index was also sluggish, rising just 0.91 to 894.18.

The market seemed determined not to give up any of last week's gains. "The market is flat, which so far is a normal digestive phase as a prelude to more mania," said Mr. Michael Metz, chief investment strategist at Oppenheimer.

He added that stocks were receiving support from the bond market as long-term yields continued to fall.

Mr Laszlo Birinyi at the Connecticut-based Birinyi Associates, a noted bullish commentator, said the quiet day fitted a strong historical pattern. "When the market's had e strong week, and last week bappened to be the strongest ever, historically the enbsequent Monday tends to be very desultory and uneventful and basically boring."

Small stocks also had e sluggish morning, following recent sharp advances, with the Russell 2000 virtually unchanged by midday. The technology-weighted Nasdaq composite index gained 3.82 to 1,426.85 by 1pm, thanks to strength in the computer sector.

Large high-tech stocks fared particularly well. Intel, the largest semiconductor manufacturer, rose $1⅝ to $146⅜, while networking leader Cisco Systems gained $⅞ to $67⅞.

The biggest mover among the Dow constituents was American Express, which was buoyed last week by unconfirmed reports that it was back in merger discussions with Citicorp. With no new announcements, American Express dropped $2 to $74¾, while Citicorp was also down, off $⅛ at $120 ⅛.

Other big movers included Wal-Mart, the largest US retailer, which gained $⅝ to $32⅝ on news of a management reshuffle.

TORONTO traded narrowly to emerge from the morning session with share prices mixed. Banks continued to harden, but a number of leading stocks ran into profit-taking after last week's run of record highs. At noon, the 300 composite index was up 1.19 at 6,551.80.

Banks made further ground. In spite of the recent weak US inflation data, talk of a cut in Canadian interest rates continued to do the rounds.

Royal Bank of Canada gained 25 cents to C$60.45 and Bank of Montreal also pushed on upwards, adding 20 cents at C$53.60.

Caracas builds on gains

CARACAS continued to make rapid upward progress building on last week's strong gains with a further advance for the IBC index, which at midsession was 135.33 or 1.8 per cent higher at 7,670.87.

"The country's back in fashion. Prospects look good," said one broker citing last week's approval for ground-breaking labour reforms and the round of oil auctions, which netted Venezuela $2.1bn in foreign bids.

MEXICO CITY rapidly reversed early gains to end lower at midsession. The IPC index was off 1.91 at 4,242.72. Corporacion Geo was a firm feature, adding 80 centavos to 41.40 pesos after the building group announced plans for an $80m international share offering.

Philips helps Amsterdam to another peak

EUROPE

Leading bourses traded quietly, not helped by the dull start on Wall Street and what looked like an uneasy compromise at the European summit.

AMSTERDAM managed to notch up another record with strong performances by Philips and PolyGram lifting the AEX index by 3.90 to 849.99.

Philips rose Fl 4.40 to Fl 121, helped by the strength of the dollar and hopes for good news at today's presentation by its Sound & Vision unit. News of film distribution rights hoisted PolyGram by Fl 5.40 to Fl 105.3 for a two-session gain of almost 10 per cent.

Heineken, which is to have its cold filtered brands distributed by a leading UK regional brewer, rose Fl 2.80 to Fl 346.50. Nedlloyd gained Fl 1.70 to Fl 61.40.

DSM came off Fl 2.70 to Fl 191.5 after ING Barings lowered its 1997 earnings per share forecast by 6 per cent. Akzo Nobel shed Fl 3.90 to Fl 262.1. Hagemeyer, up nearly 13 per cent last week, fell back Fl 2.20 to Fl 104.5.

Smaller caps saw e bounce for ICH Caland after the company explained that its forecast of improved earnings this year would not be affected by reduced shipbuilding profits. The shares jumped Fl 2.90 to Fl 108.5.

FRANKFURT ran into late profit-taking after the Dax index had reached e record high in bourse trade. Wall Street's early weakness weighed on the market and the Ibis-indicated Dax finished 2.35 weaker at 3,750.2, little moved by news of the EU agreement on a stability pact.

Export sensitive stocks were in focus. Bayer rose 22 pfg to DM67.58 in heavy trade.

Hoechst rose 59 pfg to DM70.34 on speculation that it might sell Messer Griesheim, its industrial gases subsidiary, to Linde, which picked up DM24 at DM1,324. Hoechst declined to comment on the report.

Analysts noted Hoechst has been spinning off subsidiaries in recent months but they added that the company appeared more interested in placing Messer shares on the bourse then selling the company outright.

Commerzbank slipped 55pfg to DM49.65 after e report that the bank's former chairman, Mr Walter Seipp, was told several years ago that the bank was evading taxes. Yesterday, the bank said that it has agreed to pay some DM450m in back taxes to the tax office in Frankfurt.

STOCKHOLM featured a record high for retailer Hennes&Mauritz but otherwise traded quietly. The general index finished 4.06 higher at 2,919.38.

Hennes surged more than 6 per cent after strong six-month profits sparked earnings upgrades. Paribas, which has the shares on hold given a p/e in excess of 30, stepped up its estimates of earnings per share for this year from SKr7.60 to SKr8.

The shares, which fell steeply last week following the move from A to O board listing, jumped SKr18.5 to SKr285.5 in 1.3m traded. Sentiment was also underpinned by e company roadshow, starting in London today and moving on to the US later in the week.

Electrolux, recently a strong market on restructuring news, was the main target for profit-taking. The shares slipped SKr10 to SKr582.

PARIS edged lower after a session marred by technical difficulties with its quotation system, which at one stage brought trading to a halt. The CAC 40 index closed off 2.42 at 2,795.87 in volume of 9.3m shares.

Retailers were out of favour with Promodes losing FFr24.00 to FFr2,151 on profit-taking and Carrefour shedding FFr61.00 to FFr4,224. Pinault-Printemps came off FFr24.00 to FFr2,821.

Selected gains took in Canal Plus, up FFr15.00 at FFr1,045, and car components group Valeo, which added FFr4 at FFr375.

ZURICH was easier in thin volume as recent gains were again consolidated. The SMI index eased 22.6 to 5,362.0.

Sulzer was among the day's winners, closing SFr10 higher at SFr1,340, after reaching an all-time high of SFr1,384, as the company released details of the IPO of its medical unit, Sulzer Medica.

Swiss Re rose SFr6 at SFr1,966. Dealers said that completion of a large sell order on Friday had helped the stock.

Among financials, CS Group lost SFr2.25 to SFr189, still under some pressure after rumoured plans for a merger or spin-off failed to materialise. UBS was marked SFr16 lower at SFr1,679.

A SFr12 rise in SMH to SFr899 was attributed to upbeat sales projections for its Smart car joint venture with Daimler-Benz.

MILAN had e mixed day, moving sharply forward early in the session on hopes of e breakthrough at the EU summit. But shares pulled back later when agreement was announced for a stability pact. The Comit index was 7.08 better at a high for the year of 800.86 but the real-time Mibtel index turned back from a peak of 12,881 to close 7 weaker at 12,754.

Fiat gained L105 to L6,140 after Mr Cesare Romiti, chairman, told shareholders at the company's annual meeting that sales this year would rise by around 15 per cent and pretax profits would at least match the 1996 level.

Mr Nicholas Potter at Credito Italiano said that the market appeared to be betting on an extension of the government's car sales incentives scheme beyond its original September closing date. He said the scheme had proved financially advantageous both to the government and the company and it contained a valuable element of job creation at Fiat and in the automotive components industry.

TEL AVIV was broadly higher after the release of lower than expected inflation data for May triggered by expectations of a cut in the central bank's key lending rate. The Mishtanim index rose 4.71 or 1.6 per cent to 294.61.

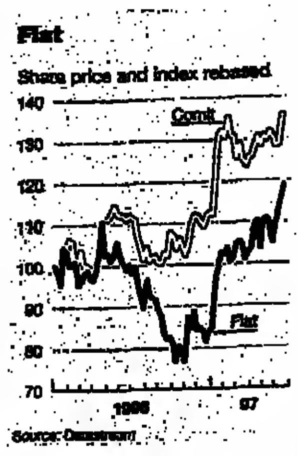
Written and edited by Michael Morgan and Jeffrey Brown

FTSE Actuaries Share Indices

Jun 16	THE EUROPEAN SERIES							
Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FTSE Eurotrack 100	2460.02	2448.84	2451.81	2452.05	2452.63	2452.49	2452.01	2451.85
FTSE Eurotrack 200	2476.60	2473.09	2475.72	2474.67	2474.86	2471.05	2471.54	2471.93

	Jun 13	Jun 12	Jun 11	Jun 10	Jun 9
FTSE Eurotrack 100	2441.70	2408.56	2385.62	2381.82	2386.57
FTSE Eurotrack 200	2472.84	2445.01	2428.41	2427.86	2414.36

Base value 1000 (26/10/90). High/day: 100 - 2463.72; 200 - 2478.32 Low/day: 100 - 2448.34 200 - 2470.12. † Partial.



Nikkei at high for year as Hong Kong rebounds

ASIA PACIFIC

Tokyo reached a high for the year as a stable dollar helped Nikkei futures to advance in Chicago and encouraged arbitrageurs to buy cash stocks, *writes Gwen Robinson.*

The Nikkei 225 average ended 152.72 higher at 20,681.07, after moving between 20,549.35 and 20,778.0. The market was encouraged by New York's further advance on Friday and solid buying by foreign investors of large-capital issues, including steel and shipbuilding stocks.

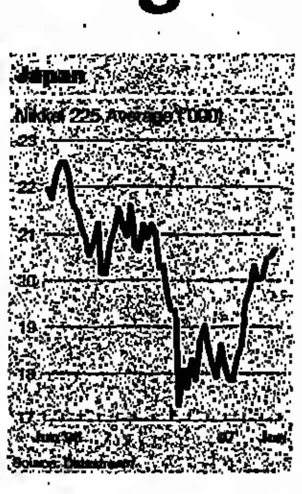
Signs of renewed calm in foreign exchange markets benefited blue chip exporters. Domestic pension funds also stayed on the buy side, although traders said there was some disappointment that public funds were not more active.

Volume fell to an estimated 315m shares. Advances led declines 613 to 460 with 190 unchanged.

The Topix index of all first-section stocks rose 11.94 to 1,542.19 and the capital-weighted Nikkei 300 was up 2.88 at 298.50. In London, the ISE/Nikkei-50 index rose 1.57 to 1,620.45.

Blue-chip exporters generally advanced. Honda rose for the first time in eight trading days, np Y140 to Y3,440. Fujitsu gained Y20 to Y1,500. Sony advanced Y30 to Y9,910 and Hitachi, the day's most ective issue, rose Y40 to Y1,300. However, TDK fell Y130 to Y8,270 and Pioneer Electronic shed Y40 to Y2,680.

Shipbuilders and steelmakers rose on foreign buying interest. Nippon Steel gained Y10 to Y355, Kawasaki Steel Y10 to Y356 and Sumitomo Metal Industries Y14 to Y316. Mitsubishi Heavy Industries rose Y9 to Y855.



Banks and securities houses gained ground. Industrial Bank of Japan and Fuji Bank each picked up Y40 at Y1,580 and Y1,700 respectively. Nikko Securities rose Y14 to Y707 and Daiwa Securities Y9 to Y910. Dai-Ichi Kangyo Bank and Nomura Securities both advanced in spite of the widening scandal over their involvement with racketeers. DKB rose Y20 to Y1,400 and Nomura Y30 to Y1,480.

In contrast, Jusco, whose president was arrested on charges of involvement in the DKB scandal, fell for the fourth consecutive trading day, shedding Y30 to Y3,760.

In Osaka, the OSE average added 131.95 to 21,414.17 and volume eased to 14.2m shares.

HONG KONG rebounded, helped by the launch of the Hang Seng China-affiliated corporations index of 32 red chipa. However, analysts cautioned that worries ebout the outlook for the local property market could produce more volatility ahead.

The Hang Seng index closed 282.05 or 2 per cent higher at 14,394.60. The new red chip index surged 7.3 per cent from its theoretical level on Friday.

Overall turnover was e robust HK$15.3bn.

The Hang Seng index fell more than 500 points last week, partly on fears that the government would impose measures to curb spiralling property prices, including issuing new guidelines to banks on mortgage lending.

Among the red chips, China Merchants gained HK$1.35 to HK$16.60 and China Resources jumped HK$1.45 to HK$27.65.

The utility sector led blue chips, followed by the commercial and industrial sector. Hong Kong Telecom HK rose 55 cents to HK$16.90 and China Light jumped HK$1 to HK$43.30.

Meanwhile, mainland China's equity markets were higher as they continued to rebound after recent falls, which followed Beijing's crackdown on excessive speculation. SHENZHEN's hard currency B index jumped 2 per cent to 149.12 while its SHANGHAI counterpart picked up 1.5 per cent to 85.319.

Local analysts commented that the crackdown on speculative trading should make the markets more attractive to foreign investment funds since any move to clarify trading rules was good news.

SYDNEY moved to a fresh record high as banks continued to advance. The All Ordinaries index rose 14.0 to 2,669.3.

Commonwealth Bank closed rose 46 or 3.2 per cent to A$15 and ANZ Bank gained 20 cents to A$9.85 amid speculation about a cut in interest rates and talk of special dividends.

Coca-Cola Amatil gained 25 cents to A$15.90 and Lend Lease put on 25 cents to A$26.55. Publishing and Broadcasting rose 24 cents to A$7.24.

JAKARTA ended higher in active trading on foreign-led buying. The composite index rose 6.67 to 705.29.

Dealers said sentiment was buoyed by reports of strong car sales in May plus profit upgrades for a number of leading companies.

Astra rose Rp100 to Rp7,050 and Ramayana Rp50 to Rp6,600.

Bank Internasional Indonesia hit a high for the year of Rp2,175, up Rp175.

TAIPEI continued to push higher, helped by the recent strong performance on Wall Street. At the close, the weighted index was up 38.27 or 1.6 per cent at 8,640.45.

Electronics stayed firm with the sector adding more than 4 per cent. Taiwan Semiconductor rose by the daily 7 per cent limit to T$102 and Macronix also rose by the limit to T$65.5. United Microelectronics advanced T$3.00 to T$88.

BOMBAY featured a sharp fall in ITC, the tobacco and hotel conglomerate, amid rumours that a foreign fund had booked profits in the stock.

The BSE-30 index fell 4.58 to 4,025.41 while ITC tumbled Rs53.25 to Rs461.75.

Johannesburg was closed for a public holiday

MARKETS IN PERSPECTIVE

	% change in local currency †				% change sterling †	% change in US $ †
	1 Week	4 Weeks	1 Year	Start of 1997	Start of 1997	Start of 1997
Austria	-0.19	+3.89	+14.30	+15.29	+6.92	+2.19
Belgium	+2.48	+4.97	+36.98	+26.29	+16.99	+11.81
Denmark	+1.76	+1.94	+46.10	+23.43	+15.13	+10.03
Finland	+2.68	+2.95	+57.30	+26.69	+17.43	+12.23
France	+2.68	+0.60	+31.09	+19.85	+11.17	+6.25
Germany	+1.25	+3.50	+43.57	+27.82	+18.61	+13.36
Ireland	+0.73	+1.40	+27.79	+20.07	+12.48	+7.50
Italy	+4.50	+2.42	+25.00	+23.44	+15.97	+9.97
Netherlands	+3.17	+7.16	+49.63	+30.67	+21.00	+15.64
Norway	+0.39	+5.29	+34.52	+19.45	+9.78	+4.92
Spain	+1.04	+6.68	+61.13	+32.01	+22.58	+17.16
Sweden	+2.24	+5.43	+52.32	+25.91	+15.75	+10.62
Switzerland	+1.19	+4.27	+47.00	+35.46	+31.74	+25.90
UK	+2.99	+1.97	+23.67	+13.89	+13.89	+8.84
EUROPE	+2.40	+3.11	+34.89	+19.78	+16.82	+11.74
Australia	+2.42	+4.57	+23.85	+11.75	+10.61	+5.71
Hong Kong	-5.53	-0.83	+19.45	-2.70	+1.71	-2.79
Indonesia	+0.52	+7.69	n.a.	+9.27	+11.23	+6.30
Japan	+1.58	+1.96	-7.30	+4.71	+10.57	+5.96
Malaysia	-2.98	+2.85	-4.67	-14.00	-9.57	-13.58
New Zealand	-0.94	+3.76	+15.60	+1.30	-3.48	-1.11
Philippines	+1.57	+9.23	n.a.	-17.34	-13.77	-17.59
Singapore	-2.06	-0.51	-6.08	-6.27	-3.90	-8.16
Thailand	-3.00	-7.10	-56.31	-41.36	-39.23	-41.92
Canada	+1.43	+8.22	+34.24	+12.86	+17.40	+12.19
USA	+4.02	+7.67	+32.74	+19.78	+25.33	+19.78
Brazil	+6.30	+13.10	+87.06	+55.81	+57.81	+50.82
Mexico	+2.14	+9.20	+30.44	+25.70	+30.12	+24.35
South Africa	+0.04	+1.08	+3.34	+9.13	+18.62	+13.37
WORLD INDEX	+2.74	+5.08	+23.01	+16.27	+18.96	+13.69

† Based on June 13th 1997.

FT/S&P ACTUARIES WORLD INDICES

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NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY JUNE 13 1997 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	THURSDAY JUNE 12 1997 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (76)	234.57	0.8	212.86	170.07	211.93	207.64	1.0	3.71	232.67	211.01	167.58	208.54	205.59	234.97	188.44	199.83
Austria (24)	194.05	-0.4	175.93	140.69	175.32	175.24	0.4	1.90	194.88	176.74	140.36	174.67	174.59	200.52	174.70	192.15
Belgium (28)	254.57	-0.4	230.79	184.57	230.00	225.18	0.4	3.17	255.67	231.67	184.14	229.15	224.33	255.67	206.70	211.06
Brazil (30)	286.06	0.6	259.34	207.40	258.45	565.62	0.7	1.27	284.34	257.87	204.79	254.85	561.97	286.06	164.28	164.28
Canada (112)	212.99	0.9	193.10	154.43	192.43	212.57	0.7	1.84	211.11	191.46	152.05	189.22	211.11	212.99	154.12	169.69
Denmark (32)	387.26	-0.3	351.09	280.78	349.87	348.53	0.6	1.45	388.31	352.15	279.67	348.03	346.61	391.53	296.19	296.19
Finland (28)	275.67	-0.8	249.92	199.87	249.06	301.49	-0.1	1.51	277.82	251.95	200.09	249.00	301.71	279.84	186.67	194.39
France (91)	227.44	0.7	206.18	164.90	205.48	209.22	1.5	2.71	225.93	204.89	162.72	202.50	206.21	232.34	186.94	195.32
Germany (58)	215.37	0.1	195.25	156.15	194.57	215.37	0.7	1.45	215.13	195.10	154.94	192.81	213.84	216.80	168.70	169.79
Hong Kong (65)	492.89	1.5	446.85	357.36	445.31	488.92	1.5	3.08	485.72	440.49	349.83	435.34	[illegible]	[illegible]	[illegible]	[illegible]
Indonesia (27)	242.57	0.4	219.92	175.87	219.16	361.39	0.5	1.63	241.63	219.13	174.03	216.57	359.68	[illegible]	[illegible]	[illegible]
Ireland (17)	353.50	0.4	320.49	256.30	319.38	328.70	0.7	2.88	351.94	318.18	253.48	315.44	326.55	353.50	270.08	287.28
Italy (59)	91.81	1.9	83.24	66.57	82.95	117.03	2.6	2.15	90.11	81.72	64.90	80.76	114.04	98.32	73.26	80.82
Japan (485)	136.76	-0.3	123.99	99.16	123.56	99.16	0.4	0.79	137.19	124.41	98.80	122.95	98.80	166.25	107.57	155.04
Malaysia (107)	521.32	-1.7	472.63	377.97	470.99	504.80	-1.6	1.36	530.29	480.91	381.93	475.29	512.62	660.85	510.10	551.27
Mexico (27)	1516.83	-0.1	1375.15	1099.75	1370.39	13196.90	-0.1	1.41	1518.93	1377.50	1093.97	1361.39	13215.96	1518.93	1110.35	1214.40
Netherland (19)	388.73	0.5	352.42	281.84	351.20	346.79	1.3	2.24	386.97	350.94	278.70	346.83	342.44	388.73	279.88	295.40
New Zealand (14)	90.75	-1.1	82.28	65.80	81.99	98.87	-0.9	4.11	91.80	83.25	66.12	82.28	70.52	95.60	76.84	76.84
Norway (41)	310.06	-0.3	281.12	224.82	280.14	305.98	0.7	2.01	311.07	282.11	224.04	278.81	303.94	321.23	246.04	255.30
Philippines (22)	167.82	0.2	152.14	121.67	151.62	220.63	0.2	0.85	167.46	151.87	120.61	150.10	220.14	–	–	–
Singapore (42)	385.58	-0.9	349.56	279.56	348.35	253.65	-0.3	1.20	387.84	351.73	279.34	347.62	254.46	448.01	360.08	415.86
South Africa (44)	361.00	-0.6	327.28	261.74	326.15	355.26	-0.4	2.44	363.01	329.21	261.45	325.36	358.85	370.12	301.49	364.28
Spain (35)	257.49	-0.4	233.44	186.69	232.63	285.92	0.2	2.29	258.50	234.43	186.19	231.69	285.33	282.42	171.91	180.73
Sweden (49)	466.72	1.0	423.12	338.38	421.66	598.96	1.0	1.04	462.27	419.23	332.94	414.33	531.85	467.61	334.35	354.44
Switzerland (35)	300.35	0.2	272.30	217.77	271.36	269.39	0.4	1.24	299.87	271.85	215.97	268.76	268.32	301.09	231.69	234.11
Thailand (43)	55.64	-9.3	50.44	40.34	50.27	55.74	-2.6	5.80	61.94	55.63	44.18	54.98	57.25	172.92	55.04	168.08
United Kingdom (212)	308.21	0.7	279.42	223.46	278.45	279.42	0.8	3.61	306.20	277.69	220.53	274.44	277.89	308.21	229.63	233.10
USA (649)	361.54	1.1	327.77	262.13	326.64	361.54	1.1	1.69	357.52	324.23	257.49	320.44	357.52	361.54	254.79	272.36
Americas (818)	330.74	1.1	299.85	239.79	298.81	278.82	1.1	1.69	327.15	296.69	235.62	293.22	275.92	330.74	233.09	248.53
Europe (727)	267.79	0.5	242.78	194.16	241.94	249.73	0.9	2.57	266.53	241.72	191.97	238.89	247.60	267.79	204.71	209.39
Nordic (150)	399.54	0.4	362.22	289.68	360.97	398.37	0.7	1.61	398.01	360.95	286.65	356.73	395.44	401.56	291.45	303.47
Pacific Basin (882)	153.92	-0.1	139.54	111.60	139.06	112.68	0.4	1.26	154.15	139.80	111.03	166.17	112.23	170.86	127.18	167.50
Euro-Pacific (1609)	201.43	0.2	182.61	146.04	181.99	164.33	0.7	1.96	201.05	182.33	144.80	180.19	163.27	201.43	173.55	164.95
North America (761)	352.40	1.1	319.48	255.50	318.38	351.65	1.1	1.70	348.51	316.06	251.01	312.37	347.80	352.40	249.85	265.41
Europe Ex. UK (515)	240.15	0.4	217.72	174.12	216.97	227.88	1.0	1.98	239.27	217.00	172.33	214.46	225.65	240.15	185.65	191.31
Pacific Ex. Japan (397)	303.91	0.3	275.52	220.34	274.57	286.86	0.5	2.79	302.84	274.65	218.11	271.43	285.49	320.65	266.97	284.04
World Ex. US (1822)	205.17	0.2	186.01	148.76	185.36	171.04	0.6	1.97	204.74	185.68	147.46	183.51	169.97	205.17	176.94	186.04
World Ex. UK (2259)	248.86	0.9	226.55	181.18	225.77	220.27	0.9	1.65	248.31	225.19	178.84	222.55	218.33	248.69	199.66	210.70
World Ex. Japan (1986)	315.65	0.8	286.16	228.85	285.17	305.82	1.0	2.05	313.04	283.90	225.46	280.58	302.90	315.66	233.10	244.63
The World Index (2471)	254.81	0.8	231.10	184.82	230.30	225.75	0.8	1.84	253.29	229.71	182.43	227.02	228.82	254.91	202.32	212.74

PLEASE NOTE: With effect from 13/6/97 the FT/S&P Actuaries Thailand index switched from using the Thai Baht closing offshore spot rate to the closing onshore rate supplied by WM/Reuters. The difference on 13/6/97 between the two rates was 8%. Latest prices were unavailable for this edition.